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Our Dismal Outlook

By VIRGIL JORDAN*
President, National Industrial Conference Board

Business Economist asserts both American mind and economy have been ruined by governmentalization and internationalization. Regrets we lost chance to use bomb. Says present inflation is a political instrument of, by, and for government.

If there is a touch of pathos or irony in the title of these comments it is because I feel it is time to consider what is happening in this country, to our own chances of freedom, welfare and safety for the future, while we are carrying forward the colossal crusade which has engaged us for the past 30 years, to save the world from and for something we don't clearly understand.

Dr. Virgil Jordan

Fifteen years ago we used to hear a good deal, and much that wasn't true, about "the forgotten man." He was the fellow the government was going to remember

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*An address by Mr. Jordan before Association of Casualty and Surety Companies, New York City, May 11, 1948.

Bank Management in The Coming Depression

By CLAUDE L. BENNER*
Vice-President, Continental American Life Insurance Co.

Insurance executive believes inflationary factors are being exaggerated by forecasters, and production increases and running-out of capital expenditures will cause major recession after 1949. To bank managers he recommends: (1) bond accounts confined to short-term governments; (2) great conservatism in inventory and other commercial lending; and (3) regarding real estate loans: insistence that current valuations be discounted or else carry government guaranty.

If one were to take a poll of the economic forecasters today he would find them divided into two groups. One group would insist that the danger facing the country is rising prices and further inflation. The other would insist that there is little danger of prices going much higher and that the country is slowly running out of a boom. In other words, we find them divided today just about where they have been divided for the last several years. One group crying the dangers of inflation and the other, the evils of deflation.

Claude L. Benner

It is interesting to note in this connection that the government's economists are now on the side of those who fear inflation. You will recall they were the ones at the close of the war who were viewing with alarm the perils of deflation and confidently predicting that 8 million men would be unemployed six months after the

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*An address by Mr. Benner delivered before the Indiana Bankers Association, Indianapolis, Ind., May 12, 1948.

Increased Spending Can Hasten War With Russia

By HARLEY L. LUTZ
Professor Emeritus of Public Finance, Princeton University

Asserting outlook for further relief from taxation and inflation is not good and a tidal wave of spending is impending, Dr. Lutz sees no ground for heavy war preparations and holds Russian time schedule does not call for impending war. Urges reducing existing tax load as means of developing our industrial strength and power and points to need of large capital investment over next few years. Contends there are many points in Federal Budget in which spending can be reduced.

The outlook for further relief from destructive taxation and inflation is not good. The President's budget for the fiscal year 1949, issued last January, called for an increase of $2.5 billion over the spending estimated for fiscal year 1948. This reversal of the downward trend set the pitch, and all of the spending interests have joined in the tune. We are told the total expenditures in the fiscal year 1949 may be close to $45 billion, and that there is reason to fear a budget of $50 billion in the year 1950. Obviously, at any such levels, it will be necessary to increase taxes somewhere and somehow. The tax reduction provided by the Revenue Act of 1948 will shrink Federal receipts to the neighborhood of $43 billion, even under the most optimistic estimates of tax yield. The continued siphoning off, through taxation, of

Dr. Harley L. Lutz

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EDITORIAL

As We See It

Confusion Steadily Worse Confounded

It was perhaps inevitable that an election year in the circumstances now existing should be crowded with confusion which appears to be growing more confounded as the days go by. At any rate, this seems to be what is happening on almost all sides. Apparently about the best that can be hoped for is that not too much will be done on any of the programs of action being brought forward until after the pressure for popular issues and popular favor is less acutely felt by the politicians, and, of course, that public opinion, so-called, will not so defnitely crystallize in unhappy lines that post-election action of a harmful nature turns out to be unavoidable.

Inconsistencies, self-contradictions, and wholly incompatible proposals, not infrequently originating with one and the same individual, or with one and the same group of individuals, are to be seen on all sides. The resulting confusion is so dense that difficulty is found in sufficiently "unscrambling" the melange to render inherent absurdities easily discernible. Take that "burning issue" of a few short months ago — inflation. It is

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How to Revive Our Ailing Capital Market

By EMIL SCHRAM*
President, New York Stock Exchange

Mr. Schram maintains life insurance companies are making loans belonging in commercial banks, and latter are usurping proper functions of equity market. Calls this unhealthy in curtailing needed risk-taking and raising proportion of debt to industrial ownership. Stresses as all-important confinement of nation's financing to private channels. Advocates reduction of margin requirements, and of capital gains tax.

The need for an abundance of risk capital in the coming several years goes undisputed. Business management faces one of its most important problems in soundly financing its new money requirements. There are unnecessary obstructions in the path of the flow and function of risk capital that must be removed if, in the years to come, we are to avoid governmental interference in the conduct of business. I refer to the double taxation of dividends, the treatment of capital gains, and the discriminatory margin requirements of 400%.

Emil Schram

I wish to open my brief remarks with a blunt statement of fact which I shall then endeavor to support. The life insurance companies are making loans today which, in my judgment, belong in the commercial banking system, while the commercial banks, I think, are advancing credit where the funds should be obtained in the equity markets—and both these conditions have been forced upon these lending agencies because the capital markets have not been in a position to provide the necessary funds. I consider this condition and the trend which it has set in motion of vital concern. They are matters which should engage the study of our officials, the Congress, and the leaders of industry and finance.

Dangerous Tendency

The dependence of business enterprise on insurance companies, particularly life insurance companies, for new money is a dangerous tendency. It is more dangerous because our tax laws encourage the tendency of business to finance through debt securities. The continuance of this trend is likely to raise grave questions when business conditions are not as favorable as they have been in the past two years. In contrast, the diffusion of the ownership of industry among as large a body of individuals as is possible promotes flexibility for management and the spread of direct interest in and knowledge of the workings of business. In 1947, net new security issues, i.e., new issues less retirements, amounted to $4.1 billion. Life insurance companies purchased $3 billion of these securities, or approximately 73% of the total. In 1946, when new security issues aggregated $2.3 billion, $2 billion or 87% were acquired by life insurance companies. When to this is added another large source of corporate funds, bank loans, which amounted to $3.7 billion in 1947 and $1.4 billion in 1946, it is readily seen that after having painfully started to pare down the public debt and balance the budget, we now seem to be engaged in rapidly swelling the debt of business.

According to a recent report of the United State Senate Finance Committee, released in connection with the enactment of the Revenue Act of 1948:

"Life insurance companies are taking a very large proportion of the new securities, while individuals, who must be the chief source of risk capital, are buying a relatively small proportion. The life insurance companies and banks, which must place their funds in securities with a low degree of risk, accounted for 83% of the net purchases in 1947, and were the only net purchasers in 1946. On the other hand, domestic individual buyers accounted for none of the net purchases in 1946 and only 17.1% in 1947. This is still another indication that those buying securities today are for the most part seeking relatively riskless investments."

I pause here to pay my respects to the leadership in the Congress that made possible a splendid beginning in correcting some of the injustices of our wartime tax structure.

I have dealt elsewhere on a number of occasions at some length with the broad question of double taxation of dividends, the need for stimulating the flow of savings that properly find their way into ownership securities and their activation in the capital market. Important benefits would be derived from changes in capital gains taxes in the direction of a liquid, orderly and continuous stock market. This leads me to margin requirements because a 75% margin effectively adds to the mounting tendency to which I have already referred. It requires a little explanation to make it clear how the reduction of margin requirements would not aggravate inflationary pressures.

Incidence of Margin Requirements

Let us take as an example a company with 500 stockholders which requires $5 million in new funds. Right now it is attractive to borrow the money from an insurance company or from a commercial bank on a term credit basis. Although we would always expect to have a differential between the cost of raising senior capital and equity funds, the difference is extraordinarily wide today because of the reduced incentives to participate in industrial ownership. However, even the reduction of margin requirements to 50% would be helpful because the sale of stock would shift the operation so that the debt created would be half of the $5 million, assuming the stockholders used their own funds to the extent of $2.5 million and borrowed the same amount from banks. In addition to stimulating ownership capital and cutting down the amount of credit, the process would diffuse the ownership of the debt from one or possibly two institutions to the banks in the different localities in which the shareholders reside.

Federal Reserve on Risk Investment

The Federal Reserve authorities at various intervals have spoken out on this question of risk investment in the banking system. The Federal Reserve Bulletin of October carried the address of the former Chairman "Postwar Bank Credit Problems," from which I quote:

(1) "Maintenance of a high degree of liquidity should be encouraged; banks should be discouraged from reducing their large holdings of Government securities and cash assets in order to acquire less liquid and more risky assets.

(2) "Supervisors should take a critical attitude toward any expansion of loans, unless they contribute directly to increased production and movement of goods. This attitude should apply particularly to consumer credit, real estate loans based on inflated values, loans to carry excessive inventories, and any loans for speculative purposes.

(3) "As long as banks maintain their present large holdings of cash and government securities, most of them are adequately capitalized. Banks with low ratios of capital to risk assets, however, should build up their capital. 'If banks persist in increasing their risk assets, they should be required to enlarge their capital accordingly by retention of earnings. If retained earnings are not sufficient, then additional stock should be sold."

It is all very well to talk about adding to the capital of our banks. I agree that the private commercial banking system is under-capitalized. This is especially true if we regard the present level of prices as a rather permanent fixture within our economic structure for many years to come. The fact is that there is scarcely a commercial bank stock that is not selling in the open market today for less than the known book value of the stock. This presents a decided difficulty on the part of the banks in raising new capital through their existing stockholders, and I might add that without prohibitive dilution of the present stock, it is impossible to attract new owners into the industry.

Ours is a great industrial empire that is capable of producing a vast amount of goods, an economy capable not only of supplying the wants and needs of 140-odd millions of its own citizens, but capable as well of shipping abroad, on balance, surplus production. This empire has been built by private funds; that is the only way we want it and the only way we should have it. I make that statement with all the force at my command, even though at one time I headed the largest lending agency of the Government which came into being in an acute emergency, and which in my belief should function only in such a period. I am thoroughly confident that our corporate structure is in need of tremendous sums of equity capital if for no other purpose than to pay off private debt.

With our Federal debt in excess of $250 billion and the additional public debt (made up of states, cities, towns and counties all over the land) totalling approximately $14 billion, with a tax load that gives promise of exceeding $40 billion for the Federal Government in the coming fiscal year, and upwards of an additional $11 billion for the support of our states and their subdivisions—we should not build up the private debt of the country unnecessarily, except as a temporary accommodation. There is an exception in the case of the railroads and the

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*An address by Mr. Schram before Economics Club of Chicago, May 11, 1948.

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United States Exports—Their Current Status and Outlook

By STUART L. DANIELS

Foreign Trade Consultant, New York State Chamber of Commerce

Mr. Daniels reports that our exports have been in a generally downward trend since the high point reached last May. States this downward trend was somewhat reversed in March, particularly in commodities needed for Europe. Predicts ERP will have favorable effect in increasing foreign trade particularly if government keeps its promise to use private channels.

The year 1947 ended with the United States having exported the greatest quantity of goods in its entire history and found exporting in a more vital position in the nation's economy than ever before. This fact is well in keeping with the new leadership role this country has assumed in international affairs.

Stuart L. Daniels

With the national income averaging about two and three-quarter times its prewar amount, exports have expanded almost five-fold. In 1937, national income was computed at $71.5 billion, in 1938 at $64.2 billion and in 1939 at $71 billion. By 1947, it was estimated at $202 billion. Value of exports shipped, on the other hand, was $3.3 billion in 1937, $3.1 billion in 1938 and $3.2 billion in 1939. Total estimated for 1947 was $14.5 billion. This tremendous increase proved a boon to the small manufacturer and johnny-come-lately as well as the old-line export merchant and traditional exporting manufacturer, but it also extended domestic shortages and contributed heavily to the inflationary spiral.

When the war ended the United States was the only nation capable of producing in quantity for the world markets. In the two and one-half years from September, 1945, to February, 1948, we shipped abroad over $28 billion worth of raw materials and manufactured goods, $2 billion more than in the 10-year period, 1931-40. A sizable portion of this material was shipped under government relief and foreign aid programs which circumvented normal private trade channels, but the overwhelming majority was in private trade and general overall effect was to give the export trade an increased importance.

Taken month by month, "peacetime" shipments (not war material) continued to mount in volume and value from September, 1945, until the peak figure of $1,503 million shipped was recorded in May, 1947. However, since that time the trend has been generally downward. In June, total value shipped was $1,320 million; July, $1,265 million; August, $1,265 million; September, $1,183 million; October, up quite a bit to $1,303 million; November, $1,195 million; December, $1,199 million; and then from the first of the year a continued decrease from $1,091 million in January to $1,086 million in February. Last published official figures for February showed exports at $1,086 million, the lowest point in a nine-month practically steady decrease. Recently released March statistics show total exports up to $1,141 million, but only 952 million were commercial exports. February was a short month with two holidays, March a long month with no holidays.

Although there are no figures available for April as yet, all indications point to a continuing downward trend. On March 1 our government imposed more stringent export controls on shipments to Europe. New methods of issuing export licenses resulted in a great deal of confusion which has not yet completely settled. Foreign governments feeling the pinch of small dollar balances further tightened their already stern import regulations. For example, on Feb. 25, a Brazilian law placed practically all exports under a priority license system. This, too, in the fact of a large backlog of overdue dollar payments for previous shipments Applications for import licenses have undergone more careful scrutiny abroad than ever. On March 21, a six-week ban on soft coal exports became effective because of the threatened coal strike.

Reports from foreign buyers and export merchants indicate that the demand for goods continues to be as strong as ever. All oversea markets are starved for more American material of every nature and description. The need for capital goods and raw materials is far from satisfied With a few exceptions, such as radios and household appliances, consumer products remain in high demand.

Yet, exporters have felt the effect of fewer orders and slow buying. Banks which last season worked double shifts to handle the huge volume of foreign credit payments have found the regular business day sufficient to manage the current situation. Exports are still running at a higher peak than the 1946 level and far exceed any prewar year, but in comparison with the 1947 average they are in a definite sharp decline.

This is not true in all categories of commodities. Certain classifications have been continuing at a high rate; even increasing in value and volume. Particularly is this true in the principal crude foodstuffs and many manufactured materials, shipments of which have been steadily increasing or maintaining an even pace. Exports of crude foodstuffs were valued at $121 million in May, $103 million in

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What Kind of Money?

By JAMES D. MOONEY*
President and Chairman of the Board, Willys-Overland Motors, Inc.

Mr. Mooney, pointing out present boom in costs and prices is result of enlarged money supply, advocates taking steps to avoid further inflation. Urges free markets with more and harder work, and greater efficiency as means of combating inflation. Decries price fixing, regimentation and government controls. Blames paper money as contributing to present world economic ills and calls for a return of gold standard and sound fiscal policy.

Because it is the great center of industry and commerce, Chicago is a natural place to discuss the money and price problems of business and of our country. Here in Chicago are the great grain and produce markets, livestock markets, the distinguished merchants, and mail-order-house managers, whose plans and financial policies must take into consideration world conditions and price trends.

James D. Mooney

The soundness, stability, and good management of the great trade and business organizations are illustrated by that distinguished institution which is now preparing to celebrate its first hundred years this summer—the Chicago Board of Trade. Many, many times this necessary organization for a free market in grains has been investigated, criticized and condemned by those who do not understand free markets and the working of the law of supply and demand in price making. These hostile authorities, and these organized public pressure groups have no conception of the function of free markets, nor of the quiet, inexorable working of economic laws: yet they have frequently assailed this essential instrument of open trading. Nevertheless, the Board of Trade has survived for 100 years, and has added world fame to this city's commerce. Every day the Board of Trade continues its useful service for the trade and agricultural interests of the whole world. Such survival and growth in an institution of the market place can only be due to the necessity of the useful service performed by it.

Well, just what does the Board of Trade do that makes it impossible for its enemies to destroy it? It provides a free market place for grain, where the law of supply and demand adjusts prices quickly to every influence brought to bear upon these commodities. No man, or group of men, is strong enough to stand up against these economic forces and turn back the tides. The successful trader is the one who has the keenness of intellect to perceive the price trends and go in the direction of the economic tides instead of against them.

The successful merchants who built the great wholesale and retail enterprises of Chicago made this city the world's leading merchandising center. A successful merchant has to be a price expert. It is too bad that many of our economists—so-called economists with their beautiful theories, spun in isolation from the real world, don't study prices at these fountain-heads of prices in the real world. All the great laboratories for the study of prices are right here in Chicago.

The Price Outlook

Necessity is going to force us to get realistic about prices. There has been an awful lot of silly twaddle talked in the last few years about prices by people who pose as authorities. Their pose is untenable simply because their pronouncements are based upon theories untempered by the searching fire of experience. Unfortunately, these fallacious theories have influenced too many of our government's fiscal policies. We businessmen, however, must face the realities of prices for the American people and deal with these price problems and factors in the real work-a-day world in which we live. Inasmuch as prices determine every one's cost of living, real wages, and real income, we must understand the causes and consequences of rising costs and prices. Prices are in terms of money, and prices rise and fall as the supply of money is inflated and deflated.

Just now it is of prime importance for us to understand these matters. Whether we are to have another world war or not—World War III—is anybody's guess. But there is no doubt that we are to have a rearmament program. This is going to place a heavy strain upon our economy. I am not sure which we should be more afraid of—another war, or the inflation—further inflation—that will arise from the rearmament and military preparedness program at present costs and prices. An additional extreme inflation would not be necessary if we could have the patriotic cooperation of every one. But we can count on more inflation, I think. Much of the inflation we now have from the last war was unnecessary. It is a result of expedient and impracticable policies. Anyhow, we have a vast inflation from World War II, an inflation which has not yet run its ravaging course, and there can hardly be any doubt that preparation for the possibilities of World War III will increase this inflation in our monetary system. We must seriously start considering all of these problems now before they overtake us. Then it would be too late.

When World War II was about to break out, it was quite obvious that World War II would be doubly disastrous in its potential consequences to our economy in the United States. We would have to sit up with the costs and economic consequences—direct consequences—of World War II, while we were suffering from the consequences of the New Deal at the same time. I am not sure that the consequences of the New Deal, if all the costs could be tabulated, were not greater than the directs costs of World War II. If we are now to prepare for World War III we must abandon silly New Deal ideas; because, if we do have another World War with a continuation of New Deal fiscal and administration policies, it is going to be "too bad" for this country. I can see our money values sink as low as those of France, where today it takes 305 francs to buy one of our American 59-cent dollars, which in turn will now buy less than half as much material and labor as it would buy ten years ago, and is still shrinking in purchasing power.

The Causes of Inflation

The great increase in prices which has taken place since the end of the war is a consequence of the inflated money boom during the war and under the New Deal before the war. Now, all prices are made in terms of money. It is a truism recognized throughout the history that an increase in the quantitiy of money made available without a proportionate increase in the supply of goods to be purchased will eventually result in an increase in prices. Moreover, the increase in prices is directly in proportion to the increase in the supply of money.

Perhaps the best way to describe this inflation that is distorting our costs and prices is to use some simple figures, and state the percentage of the increase in money in circulation and the demand deposits in banks subject to the drawing of checks. These two items constitute the readily available money supply. But let me hasten to say that these two items are not the whole potential money supply. Under our Federal Reserve system the banks can inflate this money supply through the purchase of the government debts; at the present time this means could be used to expand the money and bank deposit purchasing power more than $450 billion in addition to that already available to buyers. But let us omit this potential supply of money in the hands of money managers and take the actual supply of money now available in comparison with that of prewar and pre-New Deal. To be simple and brief, I shall omit fractions and give you round percentages. The available supply of money today is 450% of the supply of money in 1920; 400% of 1929; and 250% of 1941.

The causes of the present boom

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*An address by Mr. Mooney before the American Steel Warehouse Association, Chicago, Ill., May 12, 1948.

How to Keep Taxes Within Reason—Ruml

Mr. Ruml calls for greater efforts to make all public expenditures meet tests of necessity, urgency, and efficiency, as curb on inflation and taxation. For mitigation of inflation from federal armament expenditures, he advocates appointment of continuing civil commission to scrutinize efficiency in carrying out defense program.

Speaking at the Third National Textile Seminar Monday, May 10, on "Public Aspects of Taxation," Beardsley Ruml, Chairman of the Board of R. H. Macy & Co., Inc., stated that he expected a large defense program indefinitely, and therefore high taxes indefinitely. However he did mention three things that might be done that will keep the tax burden lighter than it otherwise would be.

Beardsley Ruml

Mr. Ruml stated in part: "Since we are not likely to have peace in the foreseeable future, we are likely to have defense programs indefinitely. A defense budget of $30 billion a year, two or three years from now, would not be surprising; and such a defense budget would mean total Federal expenditures of between $50 and $60 billion a year.

"Expenditures of $50 to $60 billion a year mean heavy taxation; but the situation is not as bad as it looks and there are some things that can be done that will keep the tax burden lighter than it would otherwise be.

Rigid Tests Should Be Applied

"(1) All public expenditure should be forced to meet severe tests of necessity, urgency and efficiency. Since defense expenditures are likely to be more than half the budget, it is reasonable that they also must meet these tests. A continuing and highly competent non-political and non-representative civilian commission having the confidence and respect of both Congress and the military might well be established, to be charged with the responsibility of scrutinizing and commenting upon general matters of defense policy and upon the efficiency of the carrying on of the program. Neither the Bureau of the Budget, nor the General Accounting Office, nor any of the several committees of Congress, nor even the Cabinet is well organized or situated to meet this special need.

"(2) Expenditures for productive plant, equipment and inventories, especially for programs outside the United States, should be represented by loans and should be financed by the sale of savings bonds to the public. Such a program of sales of savings bonds picks up purchasing power that would otherwise have to be withdrawn by taxation. It has a great advantage over taxation in that it is selective, and that it therefore does not impose on those who cannot afford it, as taxation would, the direct costs of construction of productive plants. In principle, we shall be on sounder ground if our international expenditures for the building up of world productivity, as distinguished from emergency relief, are covered by sales of savings bonds to the public rather than by taxation. The campaign for the sale of Security savings bonds now under way will give us some idea as to the amount of organization and effort needed to promote successfully adequate sales of savings bonds to the public under 'no-war, no-peace' conditions.

Loans and Imports Must Be Expanded

"(3) The larger the proportion of loans that can be properly made in our international program, as compared with grants for relief, the lower our tax burden will be, now and in the years to come. But to make loans abroad, properly and wisely, under conditions that assure goodwill and dignity for both borrower and lender, we must be prepared to receive payment from abroad in both goods and services. We must expand our imports of raw materials and manufactured goods, we must reduce barriers, and impediments to trade,, we must facilitate American tourist travel to other parts of the world. As to just what manufactured goods, raw materials, and services we shall import, and how much, and when — these are matters for business enterprise and legislative policy; but the more and the sooner, the better. Obviously, the Reciprocal Trade Agreements Act should be extended for its importance in promoting international trade, and thereby among other things, as I have explained, making it possible for us to have lower taxes than otherwise would be required.

"In addition to these three courses of action, we should gear our tax program to the consolidated cash budget, as recommended by the Committee for Economic Development, and for the reasons stated in the Committee's recent report on *Taxes and the Budget*. We should also set our tax rates to balance the budget at normal high levels of productive employment and should not expect taxation to carry an unworkable part of the burden of inflation control. A large and long-continuing defense program makes special and specific demands on the nation's resources and production. Inflation control under these circumstances must utilize appropriate special and specific measures and should expect from taxation no more than its proper contribution to the over-all program. If taxes are too heavy or of the wrong kind, they obstruct rather than assist our efforts to get our highest possible level of productivity. If our tax rates are set to balance the budget at high levels of productive employment, they are high enough. If more inflation control is needed, it should be found in measures other than taxation."

With First Securities Corp.

(Special to THE FINANCIAL CHRONICLE)

DURHAM, N. C. — Perry A. Sloan has been added to the staff of First Securities Corp., 111 Corcoran Street.

The State of Trade and Industry

Steel Production
Electric Output
Carloadings
Retail Trade
Commodity Price Index
Food Price Index
Auto Production
Business Failures

A slight increase occurred in industrial output for the country as a whole in the previous week with total production in most lines modestly higher than for the like period of 1947. It was also at or close to peak peacetime levels.

For certain types of durable goods, order backlogs continued to run heavy, but for many items the supply was considerably larger than at this time one year ago.

With respect to manufacturers' sales for the month of March, Commerce Department estimates show, they rose to $18,200,000,000 or $2,200,000,000 above the February total. This increase, the Department notes, was largely due to the longer March work-month and was "sustained by the continuance of strong underlying demand."

Month-end book value of manufacturers' inventories, at $28,900,000,000, reflected only a fractional rise over those at the close of February, valued at $28,800,000,000.

* * *

Scattered seasonal layoffs were reported during the week, but in most areas employment held at a very high level.

According to the Bureau of the Census, civilian employment rose by 1,000,000 workers between the months of March and April.

The total was 58,330,000 during the week of April 4 to 10, or 1,630,000 more than a year ago.

A large part of the rise was seasonal and occurred in agriculture, the Bureau reveals. It estimated the number of workers in this category at 7,500,000 in April, or some 600,000 above March. However, it noted that due to delays in planting operations this year, farm employment was below the April, 1947 level.

In non-agricultural industries, states the Bureau, employment rose by 400,000 to a total of about 51,000,000 in April, or close to the high recorded last December. Accompanying this was a reduction in unemployment to a total of 2,250,000 in April, or about 250,000 lower than in March.

The net effect of these changes was an expansion of about 750,000 in the civilian labor force between March and April, reflecting for the most part the entry of seasonal workers.

* * *

A deadlock the past week-end in negotiations over wages and working conditions between the rail carriers and the unions prompted President Truman on Monday of this week, to seize the roads by executive order and direct the Secretary of the Army to operate them in the name of the United States Government.

In anticipation of the strike taking place as scheduled, steps were taken on Friday last by many of the roads, to avoid needless waste of perishable freight by placing embargoes on livestock, poultry and perishable goods. These embargoes were lifted following the announcement of the President's order.

Commenting on the White House directive, Alvanley Johnston, head of the railroad engineers' union, stated that the railroad workers would obey a court order against a strike, if the government gets one. By Monday evening the government obtained a temporary restraining order from the Federal District Court signed by Justice T. Alan Goldsborough. This action canceled the nation-wide railroad strike, set for Tuesday at 6 a.m., Eastern Standard Time. The unions' strike committees abiding by the court's order rescinded their strike order the same evening.

The strike at Chrysler Corporation got under way at 10 a.m. yesterday, May 12, following a unanimous vote on Monday evening of the National Council of the Chrysler Department of the United Automobile Workers, CIO to back the stand of its negotiating committee. The strike order affects 65,000 Chrysler workers in Michigan and 10,000 in Indiana and California.

* * *

Net railway operating income of Class I railroads in March, 1948, totaled $60,724,331 compared with $73,924,144 for the same month in 1947, according to the Bureau of Railway Economics of the Association of American Railroads. For the month of March, 1948, the carriers had an estimated net income, after interest and rentals, of $35,200,000 compared with $46,200,000 in the same month in 1947.

For the first three months of 1948, net income before interest and rentals, totaled $142,646,580 compared with $176,243,935 in the same period a year ago. Net income after interest and rentals in the first three months of 1948 is estimated at $72,400,000 compared with $94,400,000 in the corresponding period of 1947.

Total operating revenues in the first three months of 1948 amounted to $2,243,241,538 compared with $2,040,521,145 in the like period a year ago, or an increase of 9.9%, while operating expenses in the first three months of 1948 added up to $1,820,970,544 compared with $1,598,151,546 in the corresponding period of 1947, or an increase of 13.9%.

* * *

Mild weather in many sections of the country spurred consumer buying during the week and resulted in total retail volume rising moderately above that of the previous week. It continued to compare favorably with that of a year ago. Seasonal items attracted considerable attention with shoppers continuing to shun high-priced and poor quality goods.

A slight increase in new order volume occurred in most wholesale centers the past week. The demand for Summer merchandise increased noticeably and re-orders of Spring items were heavy. Total dollar volume, as a consequence, was moderately above that of the corresponding week a year ago.

Department store sales, according to the Federal Reserve Board's index, increased sharply in April to 299% of the 1935-39 average. After allowance is made for the usual seasonal changes. Value of sales in the first four months of this year, the Board reveals, was about 6% larger than in the corresponding period of 1947.

CAR LOADINGS ADVANCE FURTHER IN THE WEEK

Loadings for the week ended May 1, 1948, totaled 891,638 cars, according to the Association of American Railroads. This was an

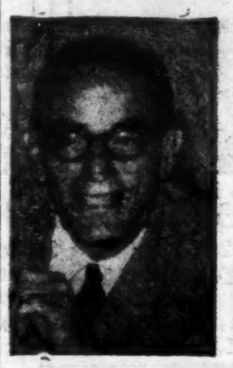
(Continued on page 33)

Observations . . .

By A. WILFRED MAY

That Appealing Appeal for Controls

The utterances of Leon H. Keyserling deserve all the press notice and public attention they are receiving. If he is not the "spokesman" of the President's Council of Economic Advisers, he is functioning as at least its *speaking member* as well as its Vice-President. And because of his intellectual brilliance, forthrightness, honesty, and lack of motivation by personal political considerations, his is the fairest representation of the "economic management" thesis which is now red-hotter than ever as a worldwide issue.



A. Wilfred May

Mr. Keyserling's latest "pro-control" plea, advanced in New York last week before the New York Chapter of the American Statistical Association, has aroused particular interest, despite the fact that his remarks were extemporaneous both in his direct talk and during an extended question period. This widespread attention seemingly stems from the impression of sweet reasonableness which this kind of "middle-ground" presentation manages to create.

Rather than devote this space to a dialectical essay about the value of planning or to challenging the wider implications of Mr. Keyserling's philosophy, this columnist merely wishes to report the characteristic basic fallacy which emasculates our planners' entire argument.

Mr. Keyserling emphasizes the important need of getting "balance" into our business structure, of equalizing production and consumption goals, of "integrating" controls into the economy—all serving to provide business with a "breathing spell" to forestall a collapse. But such aims (no matter how obscured by terminology), as well as the protestation that the Government's intervention shall only be temporary, surely are grounded squarely on the premise that the actual status of business and the economy is definitely recognizable. We must know what we are trying to balance, and in what direction we are now moving, before we make plans for "leveling off" or "leveling up," or for altering the relationship between, prices, wages, profits, and employment. The key fact is that despite the great mass of statistical data that are available, we still are incapable of even making appraisals about the relative effects of existing discernible factors. **In other words, we really do not know where we are!**

This hiatus, and the accompanying inability to forecast, have been demonstrated time and again in the past.

Past "Management" Results

First chronologically, we have seen the "management" exercised by the Federal Reserve System ever since 1913. Despite the general expertness and freedom from political motives of such of its guardians as Parker Willis, Carter Glass and Benjamin Strong, our central banking system not only was prostituted for uses which had never been intended, but the management which it legitimately exercised landed it and the country's economy in messes. At the establishment of our central banking controls, the System's founders and proponents professed that its functions were merely to maintain the liquidity of the credit structure; to protect money rates; to eliminate or smooth out business cycles; and to furnish credit through the rediscounting of paper growing out of commercial, industrial and agricultural activities.

Infraction of these sound principles first occurred with the outbreak of World War One in facilitating the government's huge financing requirements of that period. While this initial expansion was justified by the exigencies of war, the credit inflation of the 1920s, supported by our central banking system, was not so necessitated, and was not usable industrially. Ending in an expansion doubled to $14½ billion in loans and investments, and $13½ billion in deposits, arising from a $600 million increase in member bank reserves, the inflation was unwittingly stimulated by the well-meant management efforts of the Reserve authorities. The Reserve Banks kept their rediscount rates artificially low and periodically engaged in heavy open-market purchases of government securities; while reserve requirements of member banks, already too low in the opinion of many economists, had been further reduced by war time "emergency" amendments to the Federal Reserve Act.

Planning in the 'Twenties

The money managers initiated a mild open-market policy when rediscounts went below a billion dollars in the 1920 depression. In 1923 open-market operations were pursued in vigorous fashion. From Nov. 21, 1923 to Sept. 17, 1924, holdings of government securities were increased ninefold. While open-market policy was relatively inactive in 1925 and 1926, in the desire to ease the strain on the London gold reserves and other foreign centers, and in order to stimulate our domestic trade situation, the cheap money policy and credit expansion was reinstated on a grand scale in the autumn

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Edward A. Leinss With Harriman Ripley & Co.

(Special to THE FINANCIAL CHRONICLE)

Edward A. Leinss

CHICAGO, ILL.—Edward A. Leinss has become associated with Harriman Ripley & Co., Incorporated, 135 South La Salle Street. He was formerly with Stifel, Nicolaus & Co. and prior to serving in the armed forces was with Earl I. Custin & Co.

Robert H. McCrary With Bateman, Eichler

LOS ANGELES, CALIF.—Bateman, Eichler & Co., 453 South Spring Street, members of the Los Angeles Stock Exchange, announce that Robert H. McCrary, formerly Vice-President of McCrary, Dearth & Co., Des Moines, Iowa, has become associated with their firm.

Mr. McCrary's association with Bateman, Eichler & Co. was previously reported in the "Financial Chronicle" of May 6.

W. E. Hutton Co. Wire To O'Brian Mitchell

W. E. Hutton & Co., 14 Wall Street, New York City, members of the New York Stock Exchange, announce the installation of a direct private wire to their correspondent, O'Brian, Mitchell & Co., Liberty Bank Building, Buffalo, N. Y.

New De Haven Phone

De Haven & Townsend, Crouter & Bodine, 30 Broad Street, New York City, members of the New York Stock Exchange, announce that the telephone number of the firm's New York office has been changed to DIgby 4-0200.

Planning Would Give Business a "Breathing Spell": Keyserling

Selective controls should be imposed until economy is stabilized, and subsequently abandoned, declares President's adviser.

"Full-scale planning, thoroughly integrated into the economic system, would give business a needed breathing spell to adjust itself to the present extraordinary elements of inflation," said Leon H. Keyserling, Vice-Chairman of the President's Council of Economic Advisers, before the New York chapter of the American Statistical Association Thursday evening May 6. Not only must the planning be integrated, but it must be based on adequate scientific data at its initiation, the Presidential adviser maintained. Such data concerning the balance of the economy might lead the planners to the conclusion that sharply falling or rising prices in certain sectors of the economy are really a constructive factor for overall stabilization.

Leon H. Keyserling

Reimposition of rationing and other controls need only be a temporary policy to be removed when present "emergency" elements disappear, Dr. Keyserling insisted. The details of the control program should take the form of the anti-inflation proposals vainly broached to the Congress by President Truman, and embodied in the recent report from the Council of Economic Advisers. He emphasized balance between wages and prices, and production and consumption as the proper goals of planning.

Lashing out at defenders of the free market, Dr. Keyserling asserted that they, rather than bureaucrats, are motivated by considerations of politics. He also accused them of unwittingly calling for government direction in various ways while openly decrying it.

Rex W. Dodge Now With Bond & Goodwin, Inc.

(Special to The Financial Chronicle)

PORTLAND, ME.—Rex W. Dodge and Merton E. Foster are now associated with Bond & Goodwin, Inc., 120 Exchange Street. Mr. Dodge was formerly with J. Arthur Warner & Co. and prior thereto with W. H. Bell & Co.; in the past he conducted his own investment business in Portland. Mr. Foster was previously with R. H. Johnson & Co., and Townsend, Anthony & Tyson.

With Hill Richards & Co.

(Special to The Financial Chronicle)

LOS ANGELES, CALIF.—James M. Gray is affiliated with Hill Richards & Co., 621 South Spring Street, members of the Los Angeles Stock Exchange. He was formerly with Bateman, Eichler & Co.

Saul R. Miller Is Forming Own Firm

(Special to The Financial Chronicle)

CHICAGO, ILL.—Saul R. Miller is forming S. R. Miller & Co.

Saul R. Miller

with offices at 231 South La Salle Street, to engage in the securities business. Mr. Miller has been associated with Straus & Blosser for a number of years.

H. B. La Rocca Now With Sills, Minton

(Special to The Financial Chronicle)

CHICAGO, ILL.—Harry B. La Rocca has become associated with Sills, Minton & Co., Incorporated, 209 South La Salle Street, members of the Chicago Stock Exchange, in charge of private placement of term loans. He was previously with Brailsford & Co. and prior thereto was manager of the municipal department for First Securities Co. of Chicago. In the past he conducted his own investment business.

Joins Tucker Staff

(Special to The Financial Chronicle)

LONG BEACH, CALIF. — Rudolph J. Jaeger has joined the staff of Tucker & Company, 132 Pine Avenue. He was previously with First California Company.

With Herrick, Waddell Co.

(Special to The Financial Chronicle)

CHICAGO, ILL.—Edward C Broehl and Thomas F. Mangan are now with Herrick, Waddell & Reed, Inc., 332 South Michigan Avenue.

With Kirchofer & Arnold

(Special to The Financial Chronicle)

RALEIGH, N. C.—Duncan G. Hughes has joined the staff of Kirchofer & Arnold Associates, Inc., Insurance Building.

The Stockholder's High Cost of Living—What to do About It

By ROBERT A. GILBERT
Investors Management Co.

Mr. Gilbert demonstrates secular shrinkage in stockholder's purchasing power relative to other community groups. Maintains degradation of his living standard has accentuated high cost of living generally. Urges that the nation's 15 million stockholders regain their proper position by organizing to combat, with the help of their managements, other existing pressure groups.

Much has been said since the war about the reduction in the purchasing power of the income of such groups as labor, office white collar workers, school teachers, etc., but practically no publicity has been given to the fact that stockholders' dividends have increased very much less than wages and few calculations have been made as to how much "real income" the stockholder now has in today's purchasing power, as compared to pre-war. The shrinkage in the stockholder's purchasing power has been truly enormous, particularly as compared to labor's net gains. Stockholders seem to have been content to submit to treatment which can only be characterized as attempted confiscation of the value of their property. More than this, few people in responsible positions in government or even in industry have warned the general public about the ultimate economic and social consequence of allowing starvation of capital to continue.

Robert A. Gilbert

This article wishes to point out exactly how poorly stockholders have fared in this respect, to warn of the consequences of allowing economic malnutrition to continue, and to suggest several things stockholders should do to rectify their situation. The accompanying table shows what has happened to the wages of ownership—dividends—compared to the wages of labor (corporation salaries and wages). It will be noted that in 1947 dividends were only 12% over 1928, while wages were 132%. While dividends advanced in 1947 over 1946, labor gained more. Wages gained about 20% while dividends gained 16%.

Year	Index Corp. Salaries & Wages	Index Corp. Cash Dividends	Index Cost of Living
1947	232	112	130
1946	193	96	113
1945	189	87	104
1944	193	84	102
1943	182	84	100
1942	152	82	95
1941	120	86	86
1940	94	79	81
1939	87	73	80
1938	77	61	81
1937	87	91	83
1936	79	90	80
1935	70	55	79
1934	60	51	77
1933	52	40	75
1932	59	50	79
1931	76	80	88
1930	94	107	98
1929	105	113	100
1928	100	100	100

While the table shows the magnitude of the actual discrepancy between corporation dividends and wages, it also indicates that the differential in terms of constant dollars is even more. The column showing the cost of living in 1928 as 100 indicates that the dividend index is today worth 86 as compared with 100 in 1928, while the wage index in 1928 dollars is a net gain, being at 178. It would seem questionable whether labor has the right to seek continuous cost of living adjustments in its wages, when it has already achieved such a large net gain in real wages and while investors are in their present plight.

Another point worth noting from the table is that dividends and wages showed a correlation within 20 points or less until 1940. The failure of dividends in recent years to follow the cost of living is probably one important reason for the present relatively low price-earnings ratios. The stockholder's cost of living is unfortunately more often correlated to the sales volume of the company in which he has an investment than to its net profits. Prices go up, the company's sales volume goes up, but then, in the present economic climate, wages are raised as much or more than prices, high and inequitable taxes are maintained, and net profits fail to follow sales (or prices). Furthermore, under present stock market conditions, a large part of earnings often must be retained for plant improvements which cannot be financed on the long-term basis previously available when our economy was growing along free lines of development. Equity financing has become very difficult. More of the implications of this situation later.

Stockholder's Degradation Has Raised Community's Cost of Living

The fact that the stockholder's standard of living — his income and the market for his securities — has been degraded is probably a major cause of the high cost of living for all of us. If this is true, then of course labor and other pressure groups have really been cutting their own throats in ignoring investors' rights. In this connection, one has to consider that a number of recent surveys have shown that investment in capital equipment during the past 15 years or so has been subnormal, and that consequently productive capacity today cannot meet demand in many items. Many of these 15 years of subnormal plant investment were ones of discouragement to stockholders. The fact is that if private investment had not been so restricted then, our plant capacity would probably have continued to grow at its normal rate. One may view the cost of living problem also from the angle of the requirements of the present situation. It seems true that unless equity markets are revived, the large scale financing now required for such plant expansion programs, as the utility and oil industries have, will be difficult and costly. It is the costliness of the program which the public should keep in mind. If companies find financing costly, then reductions in product prices are going to be difficult. Of course, the necessity to build added capacities is very important, and if financing is difficult, delays may be experienced in bringing supply and demand in balance, with the obvious effect of prolonging scarcity prices.

Since the degradation of the stockholder is often a part of the mental complex of those believing in taxation for reform, and substantial governmental spending, etc., it is not difficult to find an-

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From Washington Ahead of the News

By CARLISLE BARGERON

With the Republican convention now less than six weeks off, the Washington political dopesters are talking mostly of Vandenberg and Speaker Joe Martin, respectively, as the Republican nominee. There is quite an organized movement, not apparent, on for Vandenberg. Martin is looked upon as the likely choice of the convention leaders in the event the Michigan Senator strikes a snag which he may do.

Carlisle Bargeron

He is not running away from the nomination anymore. Although he is not doing anything to get it, he is in a decidedly receptive move.

The impression is growing that Stassen is a stalking horse for him, that the Minnesotan now rather ruefully realizes it himself. There is a seemingly reliable story going the rounds here in Washington that he didn't want to go into Ohio against Taft but that his Eastern financial supporters insisted upon it.

These supporters are ultra internationalist or "global minded." They are afraid of Taft's realism. The fact that he wanted to reduce ERP by a billion dollars convinced them that he is entirely too practical for their plans. They had set a figure for which "Communism in Europe can be stopped," worked it right down to dollars and cents in one of the greatest mathematical feats the world has ever known. Communism in Europe can't be stopped, it seems, for 75 cents less.

These people wanted to embarrass Taft. All they succeeded in doing was to reveal generally what everybody with a knowledge of Ohio politics already knew—that there are a few districts in Ohio that Taft has never been able to carry, that anybody could have gone in and taken them. But in revealing this, these financial wiseacres jeopardized the Taft-Hartley Act which they certainly want.

Apparently they will do anything for the international spending spree upon which we have definitely embarked. Seemingly the sky is to be the limit. The set-up is that the trading is to be between individual firms or where the European government is the purchaser, between that government and the American firm. Hoffman's agency is just to see that the price is all right and pay the bills. There seems no reason why a grand time should not be had by everybody with anything to sell.

Anyway both Taft and Dewey appear to be out of the Presidential running and no Washington political observer whom I know gives Stassen a chance unless he should stage a Willkie stampede. This doesn't seem to be in the cards, first because notwithstanding his press build up, he hasn't shown any unusual popular strength. In none of the primaries which his friends have ballyhooed has he gotten a majority of the vote. Secondly, the people who paid for the Willkie stampede are believed to want Vandenberg first.

That Stassen realizes this is the set-up is evidenced by the way he is always blowing kisses at the Senator. He, of course, hopes to land second place.

His kisses are not reciprocated by Vandenberg in the slightest. It is a very strange situation, indeed. Privately Vandenberg feels about as strongly toward the young Minnesotan as do Dewey and Taft. Understandably, the Michigander's feeling might be tempered if at a certain time during the convention, Stassen should come to him and say he is willing to throw him around 150 or 200 delegates. But it would have to be tempered considerably.

The snag which Vandenberg, on the other hand, may encounter is the opposition of a large group of the party, perhaps 50%, to his joining the internationalist group so wholeheartedly. Should they register enough opposition, Joe Martin is looked upon as almost the certain choice. He is not identified with either side. He is not controversial. In fact, he is undoubtedly the most popular leader in the party.

There is no reason why the global minders shouldn't embrace him with enthusiasm. It was he who sent the Herter committee abroad to make a study and condition Congress for the Marshall Plan. He had, in fact, about as much to do with its acceptance as Vandenberg.

It is evidence of Joe's ability to get things done without arousing tempers or stepping on toes, that he accomplished this without his being tagged as a global minder like Vandenberg.

I have been visiting his home town, North Attleboro, Mass. His career is one of the best Horatio Alger success stories I have ever known. Work, work, all of his life; the son of a blacksmith, now next to the President in importance in his country's government.

Any Time Gross, Rogers Time

Gross, Rogers & Co., 458 South Spring Street, Los Angeles, California, members of the Los Angeles Stock Exchange, is distributing a very clever blotter showing that when it is five o'clock Eastern time, four o'clock Central time, three o'clock Mountain time, it is only two o'clock "Gross, Rogers' Time" on the Pacific Coast, and asking "Why wait for 'manana'? We are here, working!"

National Planning Won't Work

By RAYMOND RODGERS*
Professor of Banking, New York University

Professor Rodgers insists that economic dictatorship is only good for the planners, and that attempt at continued national control of wages, prices, and profits overlooks economic "facts of life." Declares factor of political expediency gives planning "kiss of death."

Clearly, wages, prices, profits, and national policy cannot be separated. With a public debt of more than $250 billion, the national government has a lively interest in profits. With annual budget expenditures of more than $40 billion, the national government has a direct and pressing interest in prices. With a national "auction" every four years, the members of the National Administration have a solicitude beyond measure for wages.

Raymond Rodgers

Also, it cannot be denied that in recent years national policy has had almost a controlling effect on wages, prices, and profits. But to assume that this can be continued indefinitely in the future, overlooks the economic "facts of life." Obviously, deficit financing, through our modern banking system, puts the government in the driver's seat. Funds can be raised to match the expenditures—gone are the limitations imposed by the necessity of matching expenditures with revenues. But once deficit financing is ended, by decision or necessity, the government has to live within its income and national policy loses its controlling role. A lot of people have forgotten that, under normal conditions, government policy *reflects* rather than dominates.

Even if it could be done, to assume that it is desirable to have control from the top on such vital economic matters as wages, prices, and profits through the medium of national planning is, to my way of thinking, a contradiction of the very things which have made America great.

Who Will Do the Planning?

This is not to say that we should not have planning. In fact, there can be no question as to the necessity of economic planning. The argument comes on who is to do the planning. Shall it be professional planners, or shall it be bureaucrats who consider themselves expert planners, or shall it be planning at the grass roots, namely, by the consumer? I am just enough of an "unreconstructed rebel" to prefer my own plan, for myself, poor though it may be, to the finest plan that could possibly be devised by say, my mother-in-law, my boss, my representative or senator, or any bureaucrat I ever met. In my thinking on planning by others *for me*, I cannot get very far away from the classic statement William Graham Sumner, who I think should be called the father of political economy in this country, made long ago on the problem. Dr. Sumner said "The vice of all of these schemes is that A and B put their heads together to decide what C shall be made to do for D. I call D the forgotten man." I just don't like the idea of being such a forgotten man.

Economic Dictatorship Requires Political Dictatorship

If plans could be devised of such outstanding brilliance and practicality that people would willingly follow them, then most of the objections to planning from above could be removed. But I know, and you know, that cannot be done. NRA, the OPA, in fact nearly everything that the government has done, proves that there will be malcontents, dissidents, chiselers, and crooks sooner or later in every such program. On the other hand, if plans are to be imposed from above by a superman encased in the corporeal habiliment of a bureaucrat, then you must have dictatorial powers to make them work. You cannot have economic dictatorship without political dictatorship.

Planning has worked very well in Russia—especially for the planners! Liquidation of entire classes of the population, a capital levy of 9/10 of the liquid capital of the country, movement of whole populations from one area of the country to another, and other expedients which are truly repugnant to the conscience of civilized man, have made the Russian plans work to the extent to which they have worked. Yet, in spite of their drastic enforcement, their standard of living is still among the lowest in the world.

Hitler's plans worked pretty "good" for a while, too. His firing squads, gas chambers, and total abrogation of human liberty—in fact, his complete disregard of the most elemental concepts of human decency—and his planning worked for a while. But the thousand-year plan that he proclaimed for the greater Reich fell before the overwhelming assault of the economic might of a nation which has always stood for planning at the bottom—not at the top.

Great Britain is another object lesson of the futility of planning from above. A Labor member of

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*An address by Dr. Rodgers before N. Y. Chapter of American Statistical Ass'n, New York City, May 6, 1948.

What About Money and Credit?

By M. S. SZYMCZAK*

Member, Board of Governors of the Federal Reserve System

Reserve Board member states inflationary pressures, based on tax cuts and renewed military preparations, continue strong; and nonessential bank credit should be restrained. Asserts need for authority to increase bank reserve requirements.

The economic situation in which we find ourselves today is indeed difficult. Instead of the happy security we hoped to enjoy after the war, we are beset with fears, confusions, and discouragement. We are dangerously close to a process of turning around and heading back in the direction from which we just came.

M. S. Szymczak

During the past winter we were making noticeable headway in the fight against inflation. Although the underlying economic situation continued to be basically inflationary, there were signs that the pressures of an under-supply of goods and an over-supply of money were undergoing gradual, cumulative abatement.

On the side of production, the output of goods was not only holding up at maximum levels, but in some areas was catching up with demand. Crop prospects in the world at large were encouraging and the fall in the prices of foods and other agricultural products was a desirable, corrective readjustment. The program of world-aid recovery, then under consideration, seemed to hold promise of providing an effective basis on which to reestablish lasting peace.

Recent Monetary Developments

On the monetary side, fiscal and monetary policies were having significant restrictive effects. The money supply, though still excessive, was being sharply reduced by the Treasury's seasonal surplus of tax receipts over expenditures and by accelerated retirement of public debt held by the Federal Reserve Banks and commercial banks. There had been some rise in interest rates during the fall and early winter in response to tightening credit conditions. At that juncture, the government bank supervisory authorities launched efforts to discourage further expansion of bank credit, and these efforts were strongly reinforced by a nationwide program of voluntary restraint by the banking fraternity. Finally, the credit situation was effected restrictively by successive Federal Reserve actions: first, the lowering of support levels for government security prices at the end of December; second, the rise in discount rates early in January; and, third, the moderate increase in reserve requirements for banks in New York and Chicago in February.

Despite a large inflow of gold, a heavy seasonal return of currency from circulation and large sales of government securities by non-bank investors to the Federal Reserve during winter months, fiscal and monetary operations kept bank reserves under unslackened restraint. Federal Reserve holdings of government securities fell by $1½ billion. The combined effect of fiscal and monetary operations, too, was to reduce the total money supply by nearly $4 billion. Considering all of the circumstances, this was a notable anti-inflationary accomplishment.

Government Budget Outlook

In view of these salutary developments, it came to be widely hoped that inflationary pressures were finally under control and that taxes could be safely reduced. The response of Congress to this belief was a general reduction, taking away about $5 billion per annum from the revenue of the government and adding this sum to the annual purchasing power of the public. The effect of this action was to eliminate any further budgetary surplus and any anti-inflationary restraint the surplus might have had on bank credit expansion, while at the same time unleashing new inflationary pressures through larger purchasing power.

While Congress was acting upon a tax program and a program of world aid, the international situation commenced to display alarming portents—especially in Czechoslovakia and in Berlin. These portents put an entirely new face on our international position. They produced a program of renewed military preparation that promises before it is completed to add billions to the Federal budget. In undertaking such a preparedness program, we must remember that our recently enacted program of world aid for the coming year is only a part of a larger program covering several years. It is, so to speak, a first instalment. I wish to underscore this fact. It means that we are adding expanded military preparedness on top of an already heavy budgetary load. We may shortly be confronted by budgetary deficits; in fact, we may have some budget deficit as early as this coming fiscal year. And this is only the beginning of developments for which no terminal point, as a matter of stark realism, can now be set.

The elimination of the government's budgetary surplus and the prospect of imminent budgetary deficits strike the economy before the fight against postwar inflation has been decisively won. Prices of many products are still very high in comparison with prewar and wartime levels, and many commodity service prices, including wages, are still advancing. The total money supply, while reduced from last fall, continues redundant in relation to the output of goods, and the public's $250 billion stock of available purchasing power—currency, bank deposits, and government securities—remains excessively large. Sustained high levels of production and employment, which are likely, will generate high levels of consumer income, but supplies of goods for final consumption must be diminished by amounts required for foreign aid, for military preparedness, and for domestic capital maintenance and expansion.

Prospective Bank Credit Expansion

These conditions present a picture of continuing inflationary pressures. They also add up to a strong possibility that the financing needs of the Federal Government, together with those of business, State and local governments, home owners, and consumers, will exceed the supply of available savings. This possibility implies a large demand for financing through the banks, repeating the type of bank credit development which occurred last year. Renewed expansion of bank credit and money could only result in accentuating our inflationary pressures.

The commercial banks could readily accommodate any amount of demand for further bank credit expansion. In all likelihood, bank reserves will be increased somewhat by an inflow of gold from foreign sources, and also by such purchases of government securities from non-bank investors as the Federal Reserve may make for the purpose of maintaining an orderly market. Finally, commercial banks, though obliged to sell some government securities in recent months, still hold about $66 billion of such investments which are readily convertible at the discretion of banks into reserves. And as reserves from these various sources expand, they make possible, for the banking system as a whole, a six-to-one inflationary expansion of bank credit and deposits.

Faced with these prospects, further bank credit expansion, which will add to our existing superfluity of money and liquid assets, will be very difficult to keep in check. We must probably resign ourselves to some credit expansion; we should certainly take every precaution, however, to keep it within the bounds of the essential. I suggest as a criterion of what is essential the expansion of bank credit required by our current program of national preparedness and world aid. This means, of course, priority for the bank financing of production related to these programs and also for the financing of any government deficits that may result. It means, too, a rigorous avoidance of bank credit expansion for non-

(Continued on page 28)

*An address by Gov. Szymczak before Alabama Bankers Association, Birmingham, May 7, 1948.

Dealer-Broker Investment Recommendations and Literature

It is understood that the firms mentioned will be pleased to send interested parties the following literature:

Alexander Graham Bell—Illustrated biographical brochure issued in tribute on the 100th anniversary of his birth—American Telephone & Telegraph Co., 195 Broadway, New York 7, N. Y.

Common Stock Program for Investors — Suggested portfolio—G. H. Walker & Co., 1 Wall Street, New York 5, N. Y.

Dividend Records—List of 25 investment issues with 50-year dividend records—Bond & Goodwin, Inc., 63 Wall Street, New York 5, N. Y.

Fire and Casualty Insurance Stocks—Comparison of earnings of principal issues for 1947—Laird, Bissell & Meeds, 120 Broadway, New York 5, N. Y.

First Seventeen Years, The—A History of the Investment Men of Texas 1930-1947—Issued by the Texas Group of the Investment Bankers Association—Copies may be obtained through James & Stayart, Inc., First National Bank Building, Dallas, Tex.

Insurance and Bank Stock Evaluator—Comparative analysis of 70 insurance companies and 38 banks—Dempsey-Tegeler & Co., 210 West Seventh Street, Los Angeles 14, Calif.

Also available is a summary on **Firemen's Insurance Company of Newark.**

Insurance Stock Analyzer — Comparative tabulation—Geyer & Co., Inc., 67 Wall Street, New York 5, N. Y.

Market—Memorandum on situation—Stanley Heller & Co., 30 Pine Street, New York 5, N. Y.

Mining Highlights — Leaflet on several mining issues traded in the Northwest—R. E. Nelson & Co., 725 West Sprague Avenue, Spokane, Wash.

Public Utility Securities—Memorandum on investment status in current issue of "Fortnightly Investment Letter"—H. Hentz & Co., 60 Beaver Street, New York 4, N. Y.

Also in the same issue are data on **Allis Chalmers Manufacturing Co.** and **Delaware, Lackawanna & Western Obligations.** In the firm's "Fortnightly Financial & Economic Review" there is a study of **Tide Water Associated Oil Company.**

Railroad Developments — Current developments in the industry—Vilas & Hickey, 49 Wall Street, New York 5, N. Y.

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American Machinery Corp.—Circular—Gordon Graves & Co., 30 Broad Street, New York 4, N. Y.

Buffalo Bolt Co.—Data—Buckley Securities Corp., 1420 Walnut Street, Philadelphia 2, Pa.

Also available are data on **Portsmouth Steel Corporation, Black Sivalls & Bryson,** and **Seminole Oil & Gas.**

Coca-Cola Company — Data on first quarterly report for 1948—Clement A. Evans & Company, Inc., First National Bank Building, Atlanta 3, Ga.

Delhi Oil Corporation—Memorandum—John B. Dunbar & Co., 634 South Spring Street, Los Angeles 14, Calif.

Also available is a memorandum on **Berkshire Fine Spinning Associates.**

Allen B. DuMont Laboratories, Inc. — Analytical circular — Hayden, Stone & Co., 25 Broad Street, New York 4, N. Y.

Glidden Company — Memorandum—A. M. Kidder & Co., 1 Wall Street, New York 5, N. Y.

International Detrola Corporation — Review and appraisal — Kalb, Voorhis & Co., 25 Broad Street, New York 5, N. Y.

Kellogg Company — Memorandum—Moreland & Co., Penobscot Building, Detroit 26, Mich.

Lehigh Valley Railway of N. Y. —Memorandum in current issue of "Railroad and Other Quotations"—B. W. Pizzini & Co., 25 Broad Street, New York 4, N. Y.

Lima Hamilton Corporation — Analysis and opinion — Harris, Upham & Co., 14 Wall Street, New York 5, N. Y.

Also available is an analysis of **U. S. Pipe & Foundry Company.**

New England Public Service Co. —Analysis—Ira Haupt & Co., 111 Broadway, New York 6, N. Y.

Also available is an analysis of **Wisconsin Power & Light Company.**

Northwest Airlines, Inc.—Special review—John H. Lewis & Co., 63 Wall Street, New York 5, N. Y.

Oil Exploration Co. — Data — Comstock & Co., 231 South La Salle Street, Chicago 4, Ill.

Okonite Company — Data for broker-dealers only—J. W. Gould & Co., 120 Broadway, New York 5, N. Y.

Public National Bank & Trust Co.—Analysis—C. E. Unterberg & Co., 61 Broadway, New York 6, N. Y.

Also available is an analysis of **Winters & Crampton Corp.**

Paul D. Speer Now With A. C. Allyn in Chicago

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—Paul D. Speer has become associated with A. C. Allyn & Co., 100 West Monroe Street. He was formerly with First California Co. and conducted his own investment business in Los Angeles. In the past he was an officer of H. C. Speer & Sons Co. in Chicago.

Paul D. Speer

A. M. Kidder Co. Adds

(Special to THE FINANCIAL CHRONICLE)

TAMPA, FLA.—Karl Kreher is with A. M. Kidder & Co., 506 Florida Avenue.

With John L. Ahbe Co.

(Special to THE FINANCIAL CHRONICLE)

PALM BEACH, FLA.—Lee C. Shepard, Jr. is with John L. Ahbe & Company, 251-A Worth Ave.

King Merritt Co. Adds

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — Oscar L. Lewis is now with King Merritt & Co., Inc.

AROUND OUR TOWN by Con Ed

CON EDISON REPORTS TO YOU

How We Met the Challenge of 1947

All production records were broken for electricity and gas to meet our customers' needs. During one hour—from 4:30 to 5:30 P. M. on December 23—the amount of current generated in our plants was within 5% of our capacity.

To meet increasing demands of the future, we stepped up the biggest construction program in our history, calling for expenditures of some $280,000,000 within the next four years.

Revenues reflected the record output: up 7%. But our payroll topped $100,000,000 for the first time. This, together with rising prices of fuel and materials, increased our costs by 17%—or more than double the income gain. There was a net loss on gas operations for the System amounting to $3,500,000.

A total of 23 different kinds of taxes applicable to this Company took more than 20 cents out of every dollar you paid us for service. The greater share—nearly $34,000,000 (up more than $2,300,000 over the year before)—went to New York City and Westchester localities (not including N. Y. C. Sales Tax).

Our complete Annual Report for 1947 is available on request. For your free copy, write Consolidated Edison, 4 Irving Place, N.Y.3, N.Y.

Statistically, here's where each dollar we took in went to:

We took in	$336,377,000	100%
This was used:		
For operating wages	88,288,000*	26.2%
For taxes	69,340,000	20.6%
For fuel—coal and oil	70,549,000	21.0%
For materials and outside services	29,849,000	8.9%
For depreciation of plant and equipment	32,199,000	9.6%
For interest on long term debt and other costs	13,442,000	4.0%
For dividends—Preferred Stock—to 32,804 stockholders	10,945,000	3.2%
For dividends—Common Stock—to 124,038 stockholders	18,362,000	5.5%
For surplus—for investments in new construction and other assets	3,403,000	1.0%

*Does not include wages paid to Con Edison employees engaged in new construction.

SERVICE

CONSOLIDATED EDISON
COMPANY OF NEW YORK, INC.

This is a reproduction in a smaller size of an advertisement in New York City newspapers the week of May 10.

Illinois Brevities

An issue of $66,500,000 City of Chicago 1½% and 2¼% various purpose bonds was publicly offered on May 6 by a nationwide group of underwriters, headed by Bankers Trust Co., of New York and including, among others: A. C. Allyn & Co., Inc., The Illinois Co., Stifel, Nicolaus & Co., Inc., A. G. Becker & Co. Inc., William Blair & Co., Bacon, Whipple & Co., Martin, Burns & Corbett, Inc., Kebbon, McCormick & Co., Detmer & Co., Cruttenden & Co., John W. Clark, Inc. and Sills, Minton & Co., Inc., all of Chicago. The bonds were awarded to the group following a competitive sale on May 5 on a bid that resulted in a net interest cost of 2.215%.

A total of $2,000,000 of 1½% bonds are priced from a yield of 1% to the optional date for those redeemable in 1949 to a price of 96 for the 1958 maturity; another $3,500,000 of 1½% bonds are priced from a yield of 1.15% to the optional date for those redeemable in 1950 to a price of 98¼ for the 1956 maturity; a third group consisting of $31,000,000 of 1½% non-callable bonds are priced from a yield of 0.90% for those due in 1949 to a yield of 2.35% for those maturing in 1966; and the remaining $30,000,000 comprises 2¼% bonds priced from a yield of 1% to the optional date for those redeemable in 1949 to a price of 98¼ for the 1968 maturity.

The sale included $15,000,000 2¼% slum clearance bonds, $15,000,000 2¼% rehousing bonds, $12,750,000 1½% airport bonds, $7,500,000 1½% sewer bonds, $3,500,000 1½% slum clearance bonds, $3,000,000 1½% superhighway bonds, $1,800,000 1½% police and fire department building bonds, $1,500,000 1½% street and alley reconstruction and improvement bonds, $1,500,000 1½% electric street lighting system bonds, $1,500,000 1½% fire department equipment bonds, $1,050,000 1½% waste disposal equipment bonds, $700,000 1½% playground bonds, $500,000 1½% police department equipment bonds and $200,000 1½% city garage and repair shops bonds.

* * *

On May 5, the following Chicago investment houses participated in the public offering of 800,000 shares of Sunray Oil Corp. 4½% cumulative convertible preferred stock, series B, at par ($25 per share): A. C. Allyn & Co., Inc., Ames, Emerich & Co., Inc., Bacon, Whipple & Co., A. G. Becker & Co., Inc., H. M. Byllesby & Co. (Inc.), Julien Collins & Co., Cruttenden & Co., Paul H. Davis & Co., Dempsey & Co., Detmer & Co., Farwell, Chapman & Co., Harris, Hall & Co. (Inc.), Holley, Dayton & Gernon, Kebbon, McCormick & Co., Mullaney, Wells & Co., Alfred O'Gara & Co., Rogers & Tracy, Inc. and Straus & Blosser. The net proceeds will be added to the general funds of the corporation.

* * *

Net sales of United Wallpaper, Inc. and domestic subsidiaries for the nine months ended March 31, 1948 were $9,676,342, compared with $15,800,762 for the corresponding period in the preceding fiscal year, according to William H. Yates, President. Net profits before taxes were $233,188 and $98,340 after taxes, against $2,453,801 and $1,499,047, respectively, for the nine months ended March 31, 1947. Net earnings per common share are equivalent to 3 cents, compared with $1.21 the year before.

* * *

Harris, Hall & Co. (Inc.), Julien Collins & Co. and The Illinois Co. also participated on May 4 in what was the largest financing operation by a member of the Bell Telephone System so far this year when an issue of $100,000,000 Southwestern Bell Telephone Co. 35-year 3⅛% debentures due May 1, 1983 was oversubscribed. The offering price was 102½ and interest. Approximately $95,000,000 of the net proceeds will be used to repay advances from American Telephone & Telegraph Co. and the balance toward the requirements of Southwestern's construction program.

* * *

Salomon Bros. & Hutzler, members of the New York Stock Exchange, on April 28 publicly offered and sold at 100 and interest $35,000,000 of debentures of Swift & Co., viz: $25,000,000 of 25-year 2⅝% debentures due May 1, 1973 and $10,000,000 of serial debentures bearing interest at rates ranging from 1.45% for the 1949 maturity to 2.55% for the 1958 maturity. The net proceeds will be used to finance necessary plant rehabilitation, replacements and additions, as well as for additions to working capital.

* * *

On April 27, another group of underwriters, including, among others, Paul H. Davis & Co., H. M. Byllesby & Co., Inc., Dempsey & Co., Enyart, Van Camp & Co., Inc. and Straus & Blosser, publicly offered 350,000 shares of Moore-Handley Hardware Co., Inc. (Birmingham, Ala.) common stock (par $1) at $9 per share, for account of selling stockholders.

* * *

Libby, McNeill & Libby, Chicago, for the year ended Feb. 28, 1948 reported sales of $145,370,616, as against $127,110,575 in the previous fiscal year. Earnings from the past year's operations amounted to $5,366,394, or $1.48 per share, compared with $4,935,083, or $1.36 per share, for the year ended Feb. 28, 1947. In addition, there were in the year ended Feb. 28, 1948 non-recurring profits of $1,132,939, principally from the sale of three milk condenseries. Current assets at the close of the year amounted to $55,869,546, while current liabilities were $15,095,157.

* * *

Cruttenden & Co., Straus & Blosser, Holley, Dayton & Gernon and F. S. Yantis & Co. Inc., on April 27 participated in the public offering of an issue of 293,077 shares of M and M Wood Working Co. (Ore.), capital stock (par $5) at $17.37½ per share.

* * *

Including among the investment bankers which on May 6 publicly offered 150,000 shares of Idaho Power Co. common stock (par $20) at $31.50 per share were A. G. Becker & Co. Inc., Central Republic Co. (Inc.) and Kebbon, McCormick & Co. The net proceeds, together with the proceeds from the private sale of an issue of $10,000,000 of first mortgage bonds, are to be used to pay for construction, etc.

* * *

The Greyhound Corp., Chicago, announces that it had 25,264 stockholders of record in March, 1948, an increase of 26.4% over the 19,991 stockholders in March of the previous year. Consolidated net profit after taxes for the year 1947 applicable to the stock of the corporation was $17,243,563, compared with $19,934,933 for the year 1946. Such net income is equivalent, after deducting preferred dividend requirements, to $1.82 a share on 9,330,090 shares of common stock outstanding at the end of 1947 after giving effect to the three-for-one stock split in June, 1947. This compared with $2.11 a share on the same basis for the preceding year. Current assets at the close of 1947 totaled $62,535,763, as against current liabilities of $38,756,665.

* * *

A. G. Becker & Co. Inc. and Central Republic Co. (Inc.) were also among those which offered on April 14 an issue of 139,739 shares of Public Service Co. of New Hampshire common stock (par $10) at $23.75 per share.

* * *

A. G. Becker & Co. Inc. also on April 22, together with others, publicly offered $30,000,000 Consolidated Natural Gas Co. 2¾% debentures due April 1, 1968 at 100¾ and interest.

* * *

Sills, Minton & Co. Inc. also participated on April 22 in the public offering of the following securities of Georgia-Pacific Plywood & Lumber Co. (formerly Georgia Hardwood Lumber Co.) for the account of Equitable Securities Corp., A. C. Allyn & Co., Inc. and Clement A. Evans & Co., Inc.; 69,500 shares of $1 convertible cumulative preferred stock of no par value at $23 per share and dividends and 10,425 shares of common stock (par $1) at $23 per share.

Earnings of Signode Steel Strapping Co., Chicago, in 1947 were at the record figure of $930,771, 41% more than in 1946, and more than twice those of the best prewar year. Sales and operating revenues were $13,345,113, 36% more than 1946 and more than three times those of any prewar year. Earnings for 1947 were equivalent to $2.18 per share, as against $1.43 in 1946.

* * *

On April 28 a group of investment bankers headed by Halsey, Stuart & Co. Inc., and including, among others, William Blair & Co., Dempsey & Co., The Illinois Co., Mullaney, Wells & Co. and F. S. Yantis & Co., Inc., publicly offered $14,000,000 of Wisconsin Michigan Power Co. first mortgage 3% bonds due 1978 at 100% and interest. The net proceeds are to be used to redeem $12,500,000 of first mortgage 3¾% bonds due 1961 at 102¼ on or about June 1, 1948, to repay $200,000 of bank loans, and the balance added to the general funds of the company.

On the same date, another underwriting group headed by Halsey, Stuart & Co. Inc., publicly offered $4,833,000 first mortgage 3% bonds due June 1, 1978 of The Union Terminal Co., Dallas, Texas, at 100 and interest.

* * *

On April 22, an underwriting syndicate headed by Halsey, Stuart & Co. Inc. and including, among others, A. G. Becker & Co. Inc., Julien Collins & Co. and Dempsey & Co., publicly offered $12,000,000 Gulf States Utilities Co. first mortgage 3% bonds, due April 1, 1978, at 101¾ and interest. The net proceeds are to be used to pay $4,500,000 short-term notes and the balance to finance a portion of the utility company's 1948 construction requirements.

* * *

Halsey, Stuart & Co. Inc., as sole underwriter, publicly offered on April 13 $2,000,000 Texas Power & Light Co. first mortgage 3% bonds, due April 1, 1978, at 101¾ and interest, and on May 5 an issue of $5,500,000 New York State Electric & Gas Corp. first mortgage 3% bonds, due April 1, 1978, at 100¾ and interest.

* * *

Mason, Moran & Co. also participated in the offering to the public on April 13 of 500,000 shares of Shareholders' Trust of Boston, par $1, at prices ranging from $20.41 to $20.83 per share. This Trust, organized in Massachusetts on March 13, 1948, is a diversified open-end investment company.

* * *

Another nation-wide group of underwriters on April 13 publicly offered 200,000 shares of 4% cumulative preferred stock of The Solvay American Corp. at par ($100 per share) and dividends. The following Chicago houses participated: A. G. Becker & Co. Inc., William Blair & Co., Julien Collins & Co. and Harris, Hall & Co. (Inc.).

* * *

Mullaney, Wells & Co. on April 8 also participated in an offering to the public of 65,000 shares of Oklahoma Gas & Electric Co. 5¼% cumulative preferred stock (par $100) at $104 per share and dividends.

* * *

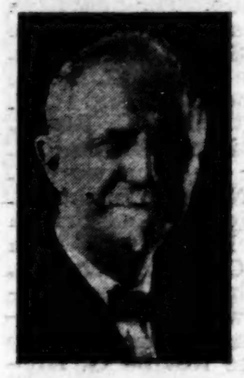
The following Chicago bankers also participated in the public offering on April 22 of 450,000 additional shares of Detroit Edison Co. capital stock (par $20) at $20.50 per share (which was oversubscribed): Harris, Hall & Co. (Inc.), William Blair & Co., The Illinois Co., Mason, Moran & Co., and F. S. Yantis & Co., Inc. They were offered for the account of the American Light and Traction Co., which on Feb. 9, 1948 owned 934,971 shares of Detroit Edison Co. stock.

Grounds for Optimism

By ROGER W. BABSON

Reporting on result of trip through mid-West, Mr. Babson finds all groups in new and better mood and hopeful for continued heavy production. Sees need for more capital and says price of prosperity is more savings and more productivity.

I have today returned from a trip throughout the great Central West—the "Magic Circle" of America. During the winter in Florida, I was rather blue due to the waste and indifference that I saw there. On St. Patrick's Day, however, I heard a message of courage and decision broadcast to the world by our Chief Executive and Commander-in-Chief of our armed forces. If this has aroused the U. S. A. to new purpose and productivity as it aroused me, good times for the next few years are "possible"—Provided: We can match our new-found faith with a proportionate output of goodwill—and goods!



Roger Babson

Good Times "Possible"

Readers of this column will recall that repeatedly I have stressed, if production fails to keep pace with demand, all of us could be caught up in a tornado of inflation—the vicious "boom and bust" spiral. Furthermore, the threat of communism and other storm-clouds had also darkened our outlook for the nearby nineteen-fifties. Therefore, I had been distressed for sometime by the "take-it-easy" attitude of our people.

My trip of the past few weeks has changed my attitude and strengthened my faith. I found that President Truman—with that speech—pepped up the entire nation. I found farmers, ranchers, merchants, manfacturers and even hard-boiled bankers in a new and better mood. They—like myself—are more hopeful than for two years.

Need of More Capital

I am heartily in accord with the growing conviction that a great demand of the period next ahead will be a universal desire and need for capital. Not even the impenetrable Iron Curtain can conceal the fact that Russians, Americans and all other divisions of the globe are subject to the same Iron Law! Namely: People cannot keep on forever consuming and/or exporting more than they produce. It is the old axiom of "Root, hog, or die." It matters little in what part of the world you set the pig trough. Yet capital cannot be manufactured by your local banker. It must be saved by you and me.

Hence, in this old-new world of ours today, we have the ironic situation that the UNITED States, the UNITED Kingdom and the U.S.S.R., tomorrow will be united in their common need for capital. How on earth is humanity — whether East or West—to get this capital, this lifeblood of the world's economic future? Only by all of us producing more than we consume, and allowing the surplus to accumulate. Everyone in business these days is in the same boat, eager to get more capital, in one form or another. It is the common story, from wholesaler to retailer, from Maine to California; from Moscow U.S.S.R. to Washington, D. C.

Who Among Us Are "Producers"?

Another thing: We must accept the economic truth that in a period of prosperity people will not be content with a mere "something to eat." Alert and informed families will ask more about the nutritional values of the soils where their goods are grown. Hence, I predict that housewives of the "fifties" will become students of the principle that good foods originate in good soils. The agriculture of the "fifties" will tend toward a combine of engineering and organic chemistry. Then there are hundreds of important new inventions ready to come on the market.

The day is dawning when we shall classify as "producers" not only farmers, manufacturers and miners—but all who apply integrity and ability to the betterment of the country. "Producers" are those who unite to produce superior goods and/or services at efficient costs. They, with the help of the teachers and preachers are the hope of America.

Price of Prosperity? Productivity!

Yes, I now feel that more good years are possible, but like so many other good things, they are to be had only if we are willing to pay the price. Looking forward to the potential prosperity of the nineteen-fifties, the price-tag is marked in bold letters for all to read. It says: We all must produce more and save more. Here, then is the neighborly advice which I am giving—and trying to take myself.

Do not look backward upon things-as-they-were, however precious the memories, nor struggle to keep things-as-they-are. Rather, let's all unite to create new highs in living standards, including standards both material and spiritual. Work and faith are the first and final securities. If we put those first things first, the nineteen-fifties can be good to us all and we can forget "boom and bust" for awhile at least.

Joins Otis Co. Staff

(Special to THE FINANCIAL CHRONICLE)

CINCINNATI, OHIO—Spencer W. Cunningham has become connected with Otis & Co., Terminal Tower. He was previously with the Ohio State Division of Securities.

Walter Devlin Joins Dempsey-Tegeler Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Walter E. Devlin has become associated with Dempsey-Tegeler & Co., 210 West Seventh Street, members of the principal national stock exchanges. Mr. Devlin was formerly Vice-President of Conrad, Bruce & Co., in charge of the Los Angeles office.

Burns Aids Fund Drive

James F. Burns, Jr., Harris, Upham & Co., is Chairman of the committee soliciting Wall Street firms and employee groups in the Greater New York Fund's 1948 campaign.

Bank and Insurance Stocks

By E. A. VAN DEUSEN

This Week — Bank Stocks

The outlook for bank operating earnings in 1948 is considered generally favorable, according to members of the executive council of the American Bankers Association in session during April at French Lick Springs, as reported in the press. The basis for this opinion lies in the anticipated rise to 1¼% for Treasury Certificates in June or July of this year. It is reported, furthermore, that many bankers believe that the Treasury should, over a period of months, permit the rate on its 12-month certificates to go to 1½%. Opinion also leans to the belief that returns on loans are likely to continue upward, the rate on prime paper in New York City possibly advancing from the prevailing 1¾% to 2.0%.

On the other hand, operating expenses are still rising, and security profits will not improve, in fact may deteriorate. On balance, however, it appears that net operating earnings will in many instances show betterment over 1947, though the experiences of individual banks will vary, and many will not conform to the pattern.

The bank stock market seems to share this opinion, for New York City bank stocks, as measured by the American Banker Index, have advanced 7.4% since the first of the year against a fractional gain of only 0.3% by the general market as measured by the Dow Jones Industrial Average, as follows:

Date—	American Banker	Dow Jones Industrials
Dec. 31, 1947	37.9%	181.16%
May 6, 1948	40.7	181.65
Gain	7.4%	0.3%

The comparative movements of individual New York City bank stocks over the period have been as follows:

	Asked Prices Dec. 31, 1947	Asked Prices May 6, 1948	Change
Bank of Manhattan	25¾	25⅞	+ 0.5%
Bank of New York & Fifth Ave.	355	343	— 3.4
Bankers Trust	39	42¼	+ 8.3
Brooklyn Trust	104	111	+ 6.7
Central Hanover	91¾	93¾	+ 2.2
Chase National	36¼	37⅞	+ 4.5
Chemical Bank & Trust	41¾	43½	+ 4.2
Commercial National	41	43½	+ 6.1
Continental Bank & Trust	16⅛	25¼	+56.6
Corn Exchange	55¼	54¾	— 0.9
First National	1,295	1,320	+ 1.9
Guaranty Trust	264	284	+ 7.6
Irving Trust	16⅛	16⅞	+ 4.7
Kings County Trust	1,480	1,550	+ 4.7
Manufacturers Trust	49⅜	52¾	+ 6.8
Morgan, J. P.	234	232	— 0.9
National City	41	42¾	+ 4.3
New York Trust	87¼	91½	+ 4.9
Public National	39¾	41¼	+ 3.8
U. S. Trust	630	575	— 8.7
AVERAGE OF 20			+ 5.7%
AVERAGE OF 19 (exclusive of Continental)			+ 3.0%

The action of Continental's stock, in response to the planned purchase by Chemical at book-value plus one dollar, is abnormal and distorts the index and the average. When excluded, the average appreciation of 19 stocks is 3.0% compared with the index rise of 7.4%, but this more moderate rise is still approximately ten times the percent gain of the Dow Jones industrials.

As of additional interest, the market action of bank stocks in cities other than New York is also shown, as follows:

	Dec. 31, 1947	May 6, 1948	Change
Boston—			
First National	50	50¼	+ 0.5%
Merchants National	310	330	+ 6.5
National Shawmut	24¾	26¾	+ 8.1
Second National	128	130	+ 1.6
Average			+ 4.2%
Philadelphia—			
Central Pennsylvania National	38	37	— 2.6
Corn Exchange	42	45	+ 7.1
First National	35½	35	— 1.4
Girard Trust	42½	42½	No Chge.
Pennsylvania Co. for Banking	33½	34½	+ 3.0
Average			+ 1.2%
Chicago—			
Continental Illinois Bank & Trust	81½	83	+ 1.8
First National	208	218	+ 4.8
Harris Trust & Savings	345	335	— 2.9
Northern Trust	600	585	— 2.5
Average			+ 0.3%
Detroit—			
Manufacturers National	160	155	— 3.1
National Bank of Detroit	34	32¾	— 3.7
Average			— 3.4%
San Francisco—			
Bank of America	47½	43½	— 8.4%

Reverting to New York City banks, total demand deposits of the Clearing House banks are running approximately 2% below the totals of a year ago, being reported at $20,660,693,000 for May 6, 1948, compared with $21,240,549,000 for May 8, 1947.

However, total loans and investments of New York City Federal Reserve Member banks are 3.8% higher than a year ago, and are reported at $19,033,000,000 for the week of May 5, 1948 against $18,331,000,000 for the week of May 7, 1947. Itemized, the changes are as follows:

(In millions of dollars)

	May 7, '47	May 5, '48	Change	
Loans—				
Brokers and Dealers	604	664	+ 60	---
Securities	259	230	— 29	---
Real Estate	76	124	+ 48	---
Banks	77	154	+ 77	---
Commercial and Agricultural	4,004	5,047	+1,043	+26.0%
Other Loans	574	764	+ 190	---
Total Loans	5,724	6,983	+1,259	+22.0%
Investments—				
Treasury Bills	117	1,180	+1,063	---
Treasury Certificates	1,149	861	— 288	---
Treasury Notes	736	554	— 182	---
U. S. Bonds	9,549	8,358	—1,191	---
Total U. S. Governments	11,551	10,953	— 598	— 4.8%
Other Securities	1,056	1,097	+ 41	---
Total Investments	12,607	12,050	— 557	---
Total Loans & Investments	*18,331*	*19,033*	*+ 702*	*+ 3.8%*

It will be observed that holdings of Governments have dropped 4.8%; it is also interesting to note that Treasury Bills are higher by over $1 billion, whereas U. S. bonds are lower by approximately the same amount. The significant increase in earning assets has been in the category of commercial loans which are up by $1,043,000,000 or 26.0%, despite a slow decline during the past few months, a trend which is likely to be reversed ere long under the influence of the Marshall Plan requirements and the military procurement program.

New Type of Airline Financing Announced

A new type of airline financing is currently being undertaken by Trans Caribbean Air Cargo Lines and their underwriters, Gearhart & Co., Inc. of New York. This type of financing was suggested in principle by the Congressional Air Policy Committee.

The company is offering today (May 13) an Equipment Trust issue secured by a four-engine Douglas D.C.-4 (45 passenger) aircraft. This financing is of a type similar in most respects to that which the railroads have used so successfully over a long period of years in financing the purchase of their equipment. Mr. O. Roy Chalk, President of the company, expressed the opinion that with the growth of aviation now in full stride the achievements of the railroads could be equalled by air transport companies.

Specifically, Trans Caribbean is offering an issue of $150,000 7% Equipment Trust Certificates due in three years. The issue will be secured by a Douglas D.C.-4 plane recently purchased for $225,000. Title to the plane will rest with the Colonial Trust Co. of New York as trustee, under the "Philadelphia Plan." The trust property would be fully insured to the extent of $250,000 as well as covered by other risks. Trans Caribbean would agree to pay the trustee $5,250 per month until maturity. This cost of $5,250 per month is said to compare with the present leasing rates for similar equipment of more than double that figure and would thus effect a considerable monthly saving for the company.

The company, in addition to unconditionally guaranteeing the certificates, is also considering the adoption of a unique feature which differs in one respect from the customary railroad equipment issues in that the certificates would also be convertible into common stock at $2 per share.

The company's annual statement for 1947 showed net income, before depreciation, of $216,343; and net after all charges and taxes of $61,060. Gross revenues for 1947 were $1,756,625 as compared with $791,434 for 1946.

Paine, Webber Co. Adds

Paine, Webber, Jackson & Curtis announce that Arthur M Moody has become associated with the firm as registered representative in its uptown office, 745 Fifth Avenue, New York City. Mr. Moody was formerly with the investment counsel firm of Douglas T. Johnston & Co., before which he was trust officer of the Union Trust Co., Providence, R. I.

Robert W. Baird & Co. To Be Formed in Milw.

MILWAUKEE, WIS. — Robert W. Baird & Co. will be formed as of May 18 with offices at 110 East Wisconsin Avenue. The new firm will be members of the New York and Chicago Stock Exchanges. Partners will be Robert W. Baird, William H. Brand, G. Harold Pfau, Ludlow F. North, Lee C. Rasey, Clarence A. Bickel, Richard J. White, Alan C. Hackworthy, Clyde L. Reed, Newman L. Dunne, J. Garrett Kamerling and Frieda Mueller. Mr. North, who is a member of the Chicago Exchange, will also hold the firm's membership on the New York Stock Exchange, acquiring the membership held by the late Neville G. Higham.


Robert W. Baird


Ludlow F. North

Members of the new firm were all formerly of the Wisconsin Co.

The name of the Wisconsin Company, which will be an affiliate corporation of the new Exchange firm, will be changed to Robert W. Baird & Co., Incorporated. Mr. Baird stated that the purpose back of the changes is "the desire to give better and more complete service to Wisconsin investors."

The Wisconsin Company was originally formed on Jan. 1, 1920 as a separate corporation following the merger in 1919 of the old First National and Wisconsin National Banks into the First Wisconsin National. The union of the banks created a bond department which was handling such a volume of business that it was decided to set up a separate corporation. When the Federal government in 1934 required banks to relinquish their securities affiliates, the company to make its separation from the bank clear, changed its name to Securities Company of Milwaukee, which subsequently was changed to the Wisconsin Company.

Jos. McManus & Co. to Be Members of NYSE

Joseph McManus & Co., 39 Broadway, New York City, members of the New York Curb Exchange, will also become members of the New York Stock Exchange on May 18, when Joseph V. McManus will acquire the Exchange membership of the late Paul Pryibil. Other partners in the firm are Michael J. Heaney, Matthew A. McManus and Frank L. Walin.

McMullen, Park & Hard To Be Formed in NYC

McMullen, Park & Hard will be formed as of June 1 with offices at 120 Broadway, New York City, to conduct an investment business. Partners of the firm, which will hold membership in the New York Stock Exchange, will be Joseph H. McMullen, Joseph F. Park, Frederick Bourne Hard, the Exchange member; Henry J. Laut, Paul Immo Gulden, John C. Litt and James H. Curtin. Mr. McMullen, Mr. Hard and Mr. Laut were formerly partners in W. R. K. Taylor & Co.

The Banks and the Economy

By JOSEPH M. DODGE*
President, American Bankers Association
President, The Detroit Bank

ABA President states banking business cannot be operated in terms of profit philosophy of other private enterprises and its management must recognize obligations to balance of economy. Hails Bankers Association's anti-inflation, or credit control program, as successful attempt to solve economic issue without law or government regulations.

It is not my intention today to go into detail on the American Bankers Association credit control program. You have had a great deal of information about it through your meetings, through the mail, in the newspapers, and in other publications. I will only emphasize some aspects of it—in terms of general principles—which we should all understand and keep before us.

Joseph M. Dodge

Before doing that I want to express my appreciation to you collectively and individually for the prompt and effective way in which the program has been activated at the State and local levels. The State officers and secretaries, without exception, have given a magnificent example of cooperation. With the members, they proved once again why the American Bankers Association is without an equal as an effective national trade Association. The reception of the program by the bankers themselves, by the Government, and by the public generally has been much more favorable than we had ever expected. What you have done has already greatly added to the National prestige of your business and your Association.

Credit-Restraining Aims Advanced

I think the principal accomplishment of our anti-inflation program has been to bring to a focus and general attention a problem which was giving increasing concern to every banker who was thinking about his business and his country. It gave them reason to act along the lines they realized was necessary under the circumstances with National support, and not merely as individuals. You undoubtedly know the statistical results have been extremely satisfactory as the large increase in bank loans, predicted for the first quarter of 1948, has not occurred.

As a matter of fact, with the forecast of a large budget cash surplus, the break in the commodity market and the slow down in lending, less than two months ago it looked as though the inflationary situation was pretty much under control and had at least begun to stabilize. But, since that time there has been a series of new factors introduced. Now there are freely expressed fears of a continued and mounting inflation and some Government authorities claim that the prospect for further inflation is greater than ever.

In Washington the Joint Committee of the Congress on the Economic Report has been holding hearings on a proposal for additional controls over bank lending and investment. The proposals recently made go beyond those of last November. Some thing new has been added, in the form of a required extra 10% cash reserve on demand deposits and an extra 4% cash reserve on time deposits for all members of the Federal Reserve System. It is estimated that this, with the reserves which can be increased in the Central Reserve Cities, could be used to raise the cash reserve requirements of the banks some $12 billion. This is in addition to the so-called "special reserve plan" which would apply to all commercial banks and require another reserve of cash or short-term Governments of 25% of demand deposits and 10% of time deposits. On a maximum basis that would effectively make the country banks 50%, the Reserve City Banks 55% and the Central Reserve City Banks 60% liquid in terms of cash and short Governments related to demand deposits.

Straitjacket Opposed

The arguments for and the much better arguments against these proposals have already been published and I do not intend to discuss them here. I only want to emphasize that any proposal to put a straitjacket of Government regulation on the banks and the borrowers of the country should be resisted as vigorously by the borrowers as the banks. The free flow of sound and productive credit for necessary purposes is essential to the effective functioning of the economy on its present level of activity. The easiest way to stifle or cripple our present tremendous production is with Government interference or controls. Blanket restrictions will inevitably create as many inequities and difficulties in places where credit is needed and should be available as they will restrain any possible improper or extravagent use elsewhere and any general freezing of credit availability might have unwanted adverse results. I am sure the bankers of the country can be depended upon to exercise appropriate caution and restraint in meeting varying local situations and needs which could not be properly served under inflexible Government regulations or limitations.

The Pro-Inflation Arguments

The contention that inflation has a new lease on life and more Government controls are needed is based on the tax reduction which it is estimated will take about $5 billion from Government revenues and thereby add it to spending power; the passage of the Economic Cooperation Act providing for the spending of $5,-300,000,000 in grants and credits for European aid; an additional appropriation for military preparedness of $3 billion; an increase in the armed forces which will draw from the potential labor supply and possible military aid to Europe in the form of a new lend lease.

It is said that these factors will have such an adverse effect on Government revenues and expenditures that there will not be the expected surplus of Government Revenues to keep pressure on the banks by a continuous and substantial retirement of marketable debt. A surplus could be used to pull money out of the economy and these programs will directly contribute to inflation by putting more money into it, perhaps leaving available less goods for consumption in an economy

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*An address by Mr. Dodge before Missouri Bankers' Ass'n, St. Louis, May 4, 1948.

Toward a Stable Economy

By DEXTER M. KEEZER*
Director, Department of Economics, McGraw-Hill Publishing Co., Inc.

Business economist maintains both purchasing power for consumers and sufficient funds for capital goods industries are necessary for balanced economy. Looks for trouble in sustaining employment in capital goods industries, alleviated somewhat by recent tax reduction. Predicts lower food and clothing prices in face of stable or rising industrial prices.

I believe that passage of the Employment Act of 1946 and its creation of the President's Council of Economic Advisers will come to be seen as a major turning point in American economic and political history. The historical turning point which I think the creation of the Council will be seen to mark is that of making the basic test of economic policy the answer to the question, "Will it work?" rather than the question, "Is it righteous?" That, to my mind, is a major change in the focusing of economic thinking and analysis.

Dexter M. Keezer

At any rate, it brings me to what I take to be our assignment this evening, "To Discuss Fully the Essentials for a Balance Between Wages, Prices and Profits That Will Maintain Satisfactory Employment and Avoid the Evils of Inflation or Depression."

It goes without saying, I trust, that I know how to do this, and that, given an unobstructed field, I would polish off the subject with complete finality. Not being here alone, however, I feel under compulsion to share the opportunity, and do some picking and choosing among the manifold aspects of the subject. Hence I shall concentrate on a few parts of the problem of stabilizing consumer purchasing power, as well as the power to finance new plant and equipment.

As to what constitutes "satisfactory employment," I assume that it has something in common with "full employment," as defined by Professor A. G. B. Fisher in his book on the "International Implications of Full Employment." With something less than complete statistical precision, but with what I find a gratifying sense of political and social realism, he defined full employment as the level of employment which will not "provoke an inconvenient restlessness among the electorate."

Definitions of Full Employment

My concept of "satisfactory employment" involves another nonstatistical element. It is employment which involves no impairment of what I technically term the "right to squawk."

Luckily, I have never been forced to test the suspicion by starvation, but I suspect that I personally value the right to squawk quite as much as the right to eat, at least to eat too much. Any employment won by sacrifice of that right would not be satisfactory, no matter how rewarding it might be in material terms.

It is my observation that when

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*An address by Mr. Keezer before N. Y. Chapter of American Statistical Ass'n, New York City, May 6, 1948.

Railroad Securities

As had been apparent to those close to the situation for some time, opposing interests in the New York, Chicago & St. Louis negotiations were unable to arrive at any mutually satisfactory stock recapitalization plan. This failure, along with the decision to abandon efforts to merge the controlled Wheeling & Lake Erie, was announced last week. It is obvious that no merger could be consummated unless a stock recapitalization eliminating dividend arrears on the Nickel Plate preferred could be worked out. It is now proposed that instead of merging the two roads Nickel Plate will operate the subsidiary under a long term lease.

Both the preferred and common stocks of New York, Chicago & St. Louis were under considerable pressure following announcement of the change in plans. In the case of the common stock this was not surprising. Over the long term the developments should be favorable to the junior equity. Payment of the dividend arrears in cash from current earnings rather than through an exchange of stocks will prevent dilution of the present common. Nevertheless, payment of the preferred dividend accruals will be a formidable job. Even with a continuation of present high traffic and earnings levels it will take quite a few years, during which period the common will obviously be unable to get any dividends. In their present mood investors are not inclined to place their trust too far into the future.

Selling of the preferred stock is not so easy to justify. To a considerable extent it appears to center around tax considerations. Holders had been looking forward to a tax-free exchange of securities for their back dividends of $84.00 a share. Instead, they will receive taxable cash dividends. Two dividends of $3.00 each have been declared payable July 1 and Oct. 1, 1948. When liquidation by holders not interested in large taxable cash dividends has been absorbed, and it should not be too substantial, rail analysts generally look for a resumption of the interrupted price recovery. Just prior to the announcement the stock had hit the highest level reached since 1945 when it sold at 148.

Under the recently announced plan the company will, when it is justified by earnings and finances, continue paying the regular $6.00 dividend rate and will set aside at least 20% of available net income each year for cash payments toward reduction of the arrears. This available net income will represent the balance remaining after payment of the regular $6.00 and after sinking fund appropriations. Even allowing for the fact that direct earnings will be increased materially through lease of the Wheeling & Lake Erie, it is obvious that complete liquidation of the back dividends by this method will take a long time. In the interim, however, the income return on the preferred at current prices will be very high.

Earningswise Nickel Plate is doing very well so far this year. Railroad operations generally have been adversely affected by a number of outside influences. In the first two months weather conditions were unusually severe. This not only imposed heavy operating costs, but, also, in many areas it resulted in the closing down of industrial plants with a consequent loss of potential traffic. Later, conditions were aggravated by the strike in the soft coal fields. In the face of such handicaps Nickel Plate was one of the few major Class I carriers that was able to cut its transportation ratio in the opening quarter. Apparently results in April were also satisfactory.

Earnings on the preferred in recent years have run consistently above $20.00 a share, one exception having been the readjustment year 1946. Last year $22.68 a share was reported. For the first quarter of the current year there was an increase, compared with a year earlier, of $2.43 to $8.70 a share. It now seems likely that results for the full year 1948 may run as high as $35.00 a share without adjusting for the projected lease of Wheeling & Lake Erie or any equity in the undistributed earnings of that company.

Einer Nielsen to Be J. C. Bradford Partner

NASHVILLE, TENN.—On May 18 Einer Nielsen will be admitted

Einer Nielsen

to partnership in J. C. Bradford & Co., 418 Union Street, members of the New York Stock Exchange. Mr. Nielsen was formerly Vice-President of the American National Bank of Nashville in charge of the Bond Department.

Investment Ass'n of N. Y. Is New Name

The Junior Investment Bankers and Brokers Association of New York has changed its name to The Investment Association of New York. The change was made after a recent vote of the membership which indicated a two-to-one preference for the new name. It is hoped that the change will help to distinguish the association as an unaffiliated organization of individuals independent from the IBA and that it will indicate the broadened scope of the association which now plans to include or continue as members those with more than five years of investment banking or brokerage experience. This is an enlargement of the intent of the original association which was formed a year ago to provide a common meeting ground for younger people in the investment banking and brokerage field.

Edward Duffy Co to Admit

Edward J. Duffy & Co., 111 Broadway, New York City, members of the New York Stock and Curb Exchanges, will admit David P. Reilly to partnership on May 20.

Can We Win the Peace With a 40-Hour Week?

By C. E. WILSON*
President of General Motors

Pointing to necessity of full production for our living standards, national defense, and European recovery, prominent industrialist declares we cannot afford ever-shortened workweek. Declares workmen must be enlightened about scarcity fallacies.

It is taken for granted in time of war that everyone, without exception, must devote his time, his energy and his best talents to the task in hand. During the second World War this country demonstrated a unity of purpose and a willingness to work that confounded the enemy and brought about victory. It was obvious that the work necessary to be done could not be accomplished with a short workweek. There was not enough manpower, not enough equipment, not enough of anything to manufacture all of the materials necessary with less than a 48-hour week. Men worked on tooling up machines and other bottleneck jobs much longer hours. With these longer working hours and with full employment our nation put millions of well-equipped men in the field, became the "Arsenal of Democracy," and accomplished all this without importantly reducing the standard of living of citizens generally.

C. E. Wilson

Today we are faced with a task somewhat comparable to that of winning the war, a task vital to the future of our country. We must win the peace if our nation is to continue strong and prosperous. At the same time we must be ever ready to protect our freedom. This task requires just as much unity of purpose, just as much energy and just as much talent as we required in winning the war. It is doubtful if the job in which we are now engaged can be accomplished with a short workweek. This is a fact to which we should all give serious consideration by approaching the study of it in a realistic, practical, unemotional manner. The question is—can we win the peace with a 40-hour week?

This country and the world are badly in need of great quantities of material and of manufactured products necessary to maintain and improve living standards and to prevent actual want. On top of this, it is becoming more and more obvious that great quantities of materials and manufactured products will be needed to strengthen our national defense and to implement the European Recovery Program.

All this means an added load on the farms, mines, mills and factories of the nation and this load is over and above the production we are normally consuming ourselves to maintain and improve our American standard of living. The situation is basically inflationary in that there is an increased demand for goods and services of all kinds.

If we do not increase our production of such goods and services, we will have to curtail our standard of living or at least give up some of the things we had hoped to have postwar or we will fail to make good on a second National Defense Program and on our European Recovery Program. We cannot accomplish these pieces of national policy by simply appropriating the money.

Government spending for other purposes still continues at a very high level. It seems to me that the only way we can maintain these high government expenditures, again arm our country with superior weapons and undertake our European Recovery Program is for all of us to work somewhat longer. Only in this way will we have enough for ourselves, especially for the men and women who, on the farms, in the mines, mills and factories of the nation, are producing all these necessary things.

Our standard of living is measured by the production and consumption of goods and services and not by the price levels at which this exchange is made. Production will not be increased by paying more money for the same work. Money is basically a medium of exchange, a measuring stick by which accounts are kept. If an important part of our production is to be siphoned off for other purposes, unless we produce more there will be a shortage in all lines of the things we need in our daily lives. This shortage can be reduced or eliminated only by greater physical production of goods and services. There is no other way, and unless more goods and services are produced to satisfy the demand, prices will rise until some will have to go without.

Americans are impatient to continue the progress of this mechanical age which has been interrupted by two World Wars. We have accomplished so much as a people that we have learned to expect much. We are hardly satisfied with our day-to-day or year-by-year progress even though cumulatively it is enormous. As a people it will be hard for us to reconcile ourselves to any reduction in our standard of living or what may seem to be a step backwards in peacetime, even though we recognize the necessity of these programs. This dissatisfaction has already led to a series of big strikes and threats of strikes since the war.

This bickering and shotgun bargaining over who should receive the greater reward for producing a shortage is likely to kill the goose that lays the golden eggs. Since war clouds still hang over the world and we are far from having achieved world peace, it is time for Americans to reaffirm their confidence in our free competitive system, quit quarreling, stop wasting precious productive hours, and be willing to increase production by the only known method by which it can be increased quickly; namely, by everybody working somewhat longer hours. This idea that we can have more only if we produce more seems so clear to me that I can't see why more people do not understand it. I questioned a friend of mine on this point. He said, "It's because work ain't popular."

If the 40-hour workweek was sound prewar and the 48-hour week during the war, a 44- or 45-hour week would seem to be reasonable under the present circumstances. Such a workweek could be either 9 hours a day for 5 days a week or 8 hours a day with a half-day on Saturday or a full day every other Saturday. The simple fact is that we still have a big job ahead of us. We cannot get it done on a prewar basis of work. We must find ways of producing far more than we did prewar.

If we would be willing to temporarily extend our workweek during this critical postwar period it would have a good effect on the workmen and peoples of other nations where the need for production is even greater than it is in our country. In some countries the people are working longer than they did prewar; in others they are not but have shortened their working hours, thereby retarding the progress of their nations. In most other countries workmen cannot hope for much more than a bare subsistence living even if they work long hours because they lack the high productive tools and the effective organization of production that exists in our country.

Since I first made the suggestion in October, 1945, that the country should temporarily adopt a longer workweek, the suggestion has been approved by some but violently opposed by others. This violent opposition mostly comes from professional labor leaders and some politicians who apparently wish to stand in the good graces of professional labor. I have been accused of being a reactionary and thinking in terms of the 1890's. Some have gone even farther back than the 1890's and termed my suggestion "caveman economics."

These reactions have all been emotional and political and not at all realistic, for what I am really trying to do is to improve the standard of living of American workmen. I know that the 40-hour week is held out to the average union member as one of labor's great gains obtained after years of battle with recalcitrant employers. Actually the 40-hour week was only practical in the immediate prewar period because these same employers had developed improved processes and better methods of working and had supplied the employees with improved tools and better places in which to work. Otherwise, the 40-hour week would have amounted to a job rationing scheme which would have reduced the real standard of living of workmen.

When I first proposed a 45-hour week, part of my plan was to increase the hourly rate about 6% so that the men who worked 45 hours would make as much money at straight time for 45 hours work as they would have on the basis of 40 hours plus time and one-half for the additional five hours. In particular, it would help the unskilled and those who, due to their inexperience or lack of ability, have difficulty in making the kind of living they expect from our modern society by only working 40 hours a week. It would also help those who did not obtain the full 45 hours. I still think this would be a practical thing to do.

Labor's Sacred Cow

When the formal proposal was made to the union in 1945 the union leaders let out a terrible blast, as it seems the 40-hour week is a "sacred cow" of labor. Henry Wallace at this time was forecasting 8,000,000 to 10,000,000 unemployment and was in a way justifying the spreading of the work on the New Deal theory of promoting scarcity.

Union leaders still refuse to take an honest look at the proposal as indicated by recent editorials in union papers which have been distributed to the workmen at some of our plants. The write-ups in these papers are distortions of the truth, but of course such

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*Abstracted from an address by Mr. Wilson before Cleveland Chamber of Commerce, April 20, 1948.

COMING EVENTS

In Investment Field

May 13, 1948 (St. Louis, Mo.)
Securities Traders Club of St. Louis old-fashioned beer party at Hyde Park Rathskeller, as guests of Hyde Park Breweries.

May 13, 1948 (New York City)
Municipal Bond Club of New York luncheon meeting at the Hotel St. George in Brooklyn.

May 13-14, 1948 (Toronto and Montreal)
Meeting of Canadian Group of Investment Bankers Association (May 13 in Toronto; May 14, Montreal).

May 17, 1948 (Boston, Mass.)
Meeting of New England Group of Investment Bankers Association of America.

May 20-22 (Detroit, Mich.)
Association of Stock Exchange Firms spring meeting at the Book-Cadillac Hotel

May 21, 1948 (Boston, Mass.)
Bond Club of Boston annual field day at Dedham Country and Polo Club.

May 22 and 23, 1947 (San Francisco, Calif.)
San Francisco Bond Traders Association annual outing at Northwood Lodge, on Russian River.

May 25, 1948 (White Sulphur Springs, W. Va.)
Spring meeting of the Governors of the Investment Bankers Association of America.

May 28, 1948 (Pittsburgh, Pa.)
Pittsburgh Securities Traders Association Annual Outing at the Shannopin Country Club

June 4, 1948 (Chicago, Ill.)
Bond Club of Chicago field day at Knollwood.

June 4, 1948 (Cincinnati, Ohio)
Municipal Bond Dealers Group of Cincinnati Annual Spring Party at the Kenwood Country Club.

June 4, 1948 (Los Angeles, Calif.)
Bond Club of Los Angeles first annual field day at the Bel-Air Country Club.

June 4, 1948 (New York City)
Bond Club of New York Annual Field Day at the Sleepy Hollow Country Club, Scarborough, N. Y.

June 11, 1948 (Atlanta, Ga.)
Georgia Security Dealers Association annual outing and dinner at the Druid Hills Golf Club.

June 11, 1948 (Baltimore, Md.)
Bond Club of Baltimore annual outing at the Elkridge Kennels.

June 11, 1948 (New York City)
Corporation Bond Traders Club of New York Spring Outing and Dinner at the Wingfoot Golf Club Mamaroneck, N. Y.

June 11, 1948 (Pittsburgh, Pa.)
Bond Club of Pittsburgh Annual Spring Outing at the Chartiers Country Club.

June 12, 1948 (Chicago, Ill.)
Bond Traders Club of Chicago Annual Golf Party at the Acacia Country Club.

June 18, 1948 (Boston. Mass.)
Municipal Bond Club of Boston annual outing at the Country Club, Concord, Mass. To be preceded by parties at the Hotel Statler on the evenings of June 16 and 17 from 9:30 p.m. until midnight.

June 18, 1948 (Philadelphia, Pa.)
Philadelphia Securities Association annual outing at Llanerch Country Club, Llanerch, Pa.

June 22, 1948 (Boston, Mass.)
Boston Security Traders Association 29th Annual Outing at Woodland Golf Club.

June 25, 1948 (Cleveland, Ohio)
Bond Club of Cleveland spring outing at Country Club.

June 29, 1948 (New York City)
New York Stock Exchange Golf Association 49th annual golf tournament at the Winged Foot Golf Club, Mamaroneck, N. Y.

July 9, 1948 (Philadelphia, Pa.)
Investment Traders Association of Philadelphia Annual Summer Outing at the Tavistock Country Club, Haddonfield, N. J.

July 16, 1948 (Toledo, Ohio)
Bond Club of Toledo annual outing at the Inverness Country Club.

July 19-22, 1948 (Portland, Oreg.)
Annual Convention of National Association of Securities Administrators at the Multnomah Hotel.

Nov. 15-18, 1948 (Dallas, Tex.)
National Security Traders Association Convention.

E. C. Baldwin With Cohu in Los Angeles

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF. — Eugene C. Baldwin has become associated with Cohu & Co., 634 South Spring Street. He was formerly Vice-President of John B. Dunbar & Co. Prior thereto he was with Cruttenden & Co., Sutro & Co., and the California Bank.

N. Y. Municipal Bond Club To Hear Dr. Dunning

Dr. J. R. Dunning, Professor of Physics, Scientific Director, Columbia University, will be guest speaker at the luncheon meeting of the Municipal Bond Club of New York, to be held at the Hotel St. George, Brooklyn, at 12:15 p.m. today, May 13. His subject will be "The Future of Atomic Energy."

The Keynesian Miracle

By LUDWIG von MISES*
Visiting Professor at New York University

Characterizing John Maynard Keynes as "new prophet of inflationism," and as a neo-mercantilist, Austrian economist criticizes theory that credit expansion performs miracle of turning stone into bread. Denies opposition to Keynes comes only from "vested interests of scholars in the older theory," and accuses Keynes and his followers of using rhetoric technique in pronouncing their theories. Concludes Keynes theories in practice have failed and that his followers are led on by fanaticism.

The stock-in-trade of all Socialist authors is the idea that there is potential plenty and that the substitution of Socialism for capitalism would make it possible to give to everybody "according to his needs." Other authors want to bring about this paradise by a reform of the monetary and credit system. As they see it, all that is lacking is more money and credit. They consider that the rate of interest is a phenomenon artificially created by the man-made scarcity of the "means of payment." In hundreds, even thousands, of books and pamphlets they passionately blame the "orthodox" economists for their reluctance to admit that inflationist and expansionist doctrines are sound. All evils, they repeat again and again, are caused by the erroneous teachings of the "dismal science" of economics and the "credit monopoly" of the bankers and usurers. To unchain money from the fetters of "restrictionism," to create free money (Freigeld, in the terminology of Silvio Gesell) and to grant cheap or even gratuitous credit, is the main plank in their political platform.

Ludwig von Mises

Such ideas appeal to the uninformed masses. And they are very popular with governments committed to a policy of increasing the quantity both of money in circulation and of deposits subject to check. However, the inflationist governments and parties have not been ready to admit openly their endorsement of the tenets of the inflationists. While most countries embarked upon inflation and on a policy of easy money, the literary champions of inflationism were still spurned as "monetary cranks." Their doctrines were not taught at the universities.

John Maynard Keynes, economic adviser to the British Government, is the new prophet of inflationism. The "Keynesian Revolution" consisted in the fact that he openly espoused the doctrines of Silvio Gesell. As the foremost of the British Gesellians, Lord Keynes adopted also the peculiar messianic jargon of inflationist literature and introduced it into official documents. Credit expansion, says the "Paper of the British Experts" of April 8, 1943, performs the "miracle . . . of turning a stone into bread." The author of this document was, of course, Keynes. Great Britain has indeed traveled a long way to this statement from Hume's and Mill's views on miracles.

Keynes and the Treaty of Versailles

Keynes entered the political scene in 1920 with his book, "The Economic Consequences of the Peace." He tried to prove that the sums demanded for reparations were far in excess of what Germany could afford to pay and to "transfer." The success of the book was overwhelming. The propaganda machine of the German nationalists, well-entrenched in every country, was busily representing Keynes as the world's most eminent economist and Great Britain's wisest statesman.

Yet it would be a mistake to blame Keynes for the suicidal foreign policy that Great Britain followed in the interwar period. Other forces, especially the adoption of the Marxian doctrine of imperialism and "capitalist warmongering," were of incomparably greater importance in the

(Continued from page 39)

*Reprinted from the March issue of "Plain Talk," 240 Madison Avenue, New York 16, N. Y.

Lafferty Admits Denman

R. F. Lafferty & Co., 19 Rector Street, New York City, members of the New York Curb Exchange, admitted Stephen W. Denman to partnership on May 1.

Mutual Funds

By HENRY HUNT

A Repeat Business

The most successful mutual fund salesmen are those who offer them as an investment program to build up an estate and to provide a "living annuity." Such a sales approach results in repeat business, and enables the salesman to obtain with little effort a continuous income from his established clients. It also gives the salesman more time to develop new accounts.

Doug Porteous, of **Herrick, Waddell & Reed,** tells us that the older shareholders of **United Income Fund** have made seven separate purchases on the average. The following tabulation lists a few of the more prolific buyers of this fund:

Date	Original Amount Invested	No. of Repeat Orders	Total Amount Invested
Feb. 26, 1941	$992.99	39	$45,111.69
Apr. 26, 1941	392.40	33	56,054.83
Apr. 26, 1941	2,493.92	22	28,849.96
Apr. 5, 1941	93.00	20	6,804.54
June 13, 1941	3,004.26	14	17,606.35
June 16, 1941	1,993.05	31	18,078.81
July 11, 1941	2,168 32	28	14,049.93
Sept. 4, 1941	194.00	12	24,312.68
Sept. 27, 1941	991.44	23	42,414.21
Sept. 14, 1942	2,994.72	21	237,820.81
Mar. 9, 1942	121.50	36	13,472.14
Dec. 28, 1944	2,461.98	9	92,393.94
June 7, 1945	1,344.00	23	24,013.35
June 5, 1945	321.50	17	4,144.70
Nov. 9, 1945	4,994.10	31	128,606.66
Totals	$24,561.18	359	$753,734.60

If the proof of the pudding is in the eating, holders of **United Income Shares** seem to find it an appealing dish.

What the Tax Cut Will Do?*

"What will upper bracket taxpayers do with their tax savings?

"What can business expect as a result?

"To answer these questions, McGraw-Hill field editors interviewed a carefully selected sample of business executives earning $15,000 a year or more. Here, for the first time, are solid facts that show how tax reduction will effect the supply of risk capital and business incentives. These are the results:

"(1) How much of your tax reduction will you save______74%

"(2) How much of your tax savings will you invest in common stocks?__________52%

"(3) Will lower taxes lead you to switch some of your investment in bonds to stocks? ______________Yes 28%

"(4) Have you passed up an opportunity to invest in a new business in the last five years because the return after taxes did not justify the risk? ______________Yes 40%

"(5) Will lower taxes make you more inclined to take a risk on a new business?__Yes 80%

"(6) Have you turned down the opportunity to take a bigger job in the last five years because taxes would take too much of the additional income offered? ___________Yes 13%

"(7) Do you know of actual cases of executives who have turned down bigger jobs or more work because of taxes? ________________Yes 38%

"(8) Will lower taxes make you more inclined to take on a bigger job or more work? ________________Yes 59%

*Quoted from **Distributors Group's** "Investment News."

A Bostonian's Comment

In the first quarter report to shareholders, William A. Parker, President of **Incorporated Investors,** writes as follows:

"Since the end of the war, the American economy has continued to offer proof that the vitality, resourcefulness and adaptability exhibited during the war were not conditioned primarily on the high emotion that is a normal concomitant of an armed struggle for victory. These qualities had deeper foundations. As a consequence, most of the difficulties that many people feared would be experienced in the postwar years have not materialized.

"The management of Incorporated Investors continues to maintain a fully invested position because it remains convinced that the outlook for business activity and profits more than justifies the present level of stock prices. During the year 1947 inventories showed little or no increase in physical volume, even in the soft goods lines where it was most expected. While there was over a $5 billion expansion in the amount spent for industrial equipment in 1947 over 1946, the total amount of private investment in capital goods increased only from 24.6% to 27.8% of the gross national product. The percent of gross national product spent represented by industrial construction has been abnormally low.

"The evidence indicates that whatever boom we may have had has been largely in consumer goods and that there is no evidence that a boom in the heavy industries is even well advanced. As a matter of fact, production in consumer goods appears to be at a normal rather that at a boom level. For example, production of textiles and shoes is only a rate one-sixth higher than prewar, although there are now 20% more wage earners in the country. Personal incomes for the first two months of this year were higher than a year ago. Few, if any, deflationary forces can be discerned."

Notes

During the first quarter, the **Bullock Fund,** a "growth" fund, added three new stock: Aluminum Company of America, DuMont, and Minnesota Mining and Manufacturing.

As of March 31, **Keystone's B-4** reported net assets of nearly $20,000,000, with market value of securities owned exceeding their cost by $635,000.

National Investors, one of the Seligman group, reports that for the eleven years ended March 31, 1948, net asset value increased 31.8%, including security profits distributed. During this same period the general level of common stock prices as measured by the Dow-Jones Industrial stock index declined 4.9%.

Wellington Fund increased its holdings of common stocks and other equity type securities from 53% of resources to 62% during the first quarter.

"These Things Seemed Important," published by **Selected Investments Company,** quotes from the New York Stock Exchange's "Magazine," as follows: "Average yields among 22 foreign equities, using year-end prices and dividends paid in '47 were: 12 British stocks 2.1%; 4 French 2.2%; 6 Swiss 3.2%."

Brown Named Head of Fundamental Investors

Also elected President of Investment Management Fund and Investors Managers Co.

The election of Edmund Brown, Jr., as President of Fundamental Investors, Inc., and Investment Management Fund, Inc.—investment companies—and of Investors Management Company, Inc.—research organization—has been announced by the Boards of Directors of the three companies.

Edmund Brown, Jr.

Since Mr. Brown's affiliation with these companies in January, 1947, as Vice-President and Director, he has been their chief research executive and directly in charge of portfolio administration of the two investment companies which have more than $40,000,000 in assets and approximately 11,000 stockholders throughout the country. The research organization is affiliated with the firm of Roosevelt and Sons and George Emlen Roosevelt is Chairman of the board of the corporation.

Prior to Mr. Brown's connection with the above companies, he had for some years been Vice-President of Lehman Corporation and had also served as director of research with Clark, Dodge & Co.

A graduate of Amherst College (A.B.) and Columbia University (Ph.D.), Mr. Brown founded the University of Richmond Business School and later was Associate Professor of Marketing at the University of North Carolina. He is author of "Determinants of Investment Practice" and "Marketing."

NSTA Notes

NATIONAL SECURITY TRADERS ASSOCIATION INC.

"AD LIBBING"

With the assurance of a most colorful convention in Dallas next November, your National Advertising Committee will soon announce a complete Committee that will cover all affiliates for our 1948 post-convention Year Book.

Your Chairman is most pleased by the acceptances of the various Presidents of our affiliates to act on this Committee. In view of the various economists' and market analysts' reports anticipating a big market toward the end of this year, we are looking forward to a most successful Year Book.

* * *

We are requesting our entire membership to cooperate with the "Commercial and Financial Chronicle" representatives in building up advertising for our Convention Issue.

* * *

To those who will attend the convention, we say: Keep in mind a sign on a Texas bathing beach—"A Coat of Tan Is Yours for the Basking."

HAROLD B. Smith, Chairman
Year Book Committee, NSTA
Collin, Norton & Co.
120 Broadway
New York 5, N. Y.

GEORGIA SECURITY DEALERS ASSOCIATION

The Georgia Security Dealers Association will hold its annual outing and dinner at the Druid Hills Golf Club on June 11.

McDaniel Lewis Co. Adds

(Special to THE FINANCIAL CHRONICLE)

GREENSBORO, N. C.—Marshall H. Johnson has been added to the staff of McDaniel Lewis & Co., Jefferson Building.

Lincoln E. McRae Adds

(Special to THE FINANCIAL CHRONICLE)

ROCKLAND, ME.—Therald Eastman has been added to the staff of Lincoln E. McRae, 449 Maine Street.

Observations

(Continued from page 5)

of 1927. The resulting cheap money landed both the country in the most violent speculative orgy in its history, and, characteristically, the planning authorities themselves in an inescapable dilemma. For during 1928 and 1929 they found themselves torn between the following three conflicting motives: (1) The need to restrain the use of credit for speculative purposes; (2) the desire not to tighten money in foreign countries and not to divest them of their gold; and (3) the desire to keep money available domestically at cheap rates for legitimate business purposes.

But once they had done the damage, the managers found it impossible to right it, mainly because it was unforeseeably found impossible to keep different uses for credit segregated in water-tight compartments. In any event, the net result of the management efforts was indisputably that they brought about a holocaustic depression far worse than could otherwise have happened.

Again in 1936 dire results from government fiscal manipulations were seen. Federal policies of borrowing and spending, creating a large expansion of bank deposits at second hand, coupled with official pressure to reduce interest rates, created an over-supply of investment and speculative funds that resulted in another violent stock market inflation, finally culminating in the 1937 bust.

So we have seen how major attempts at central direction, however well-meaning, have had the most unfortunate practical results. Similarly, impossibility of forecasting has been demonstrated in the highest places. Forgetting that Herbert Hoover now epitomizes a legendary tradition of failure, and without hindsight, let us realize that from the office of the Presidency he had unequalled facilities to appraise contemporary economic conditions. Yet from 1929 on, throughout the next three years, all his policies based on the "prosperity-around-the-corner" predictions were rendered completely abortive by the incorrectness of his forecasting premise.

The Goats Are Still Parading

But only as a Republican was President Hoover the last "goat" in interpretation and prediction. For example let us skip to the end of World War Two to look at thoroughly logical analyses of the economic picture gone completely wrong; then we can ponder whether the complex elements confronting us now are solvable any more easily.

V-E and V-J Days were for many government economists and other experts the signal portending a major Depression. Demobilization of 10 million men was viewed as a specter leading to widespread unemployment continuing that "chronic" condition of the 1930s. The previous wartime over-building of plant, over-consumption, and expansion of inventories, were widely regarded as the precursor of trouble ahead. For planners intending to take action on these logical presumptions there certainly could be no quarrel—but, unexpectedly, the Truman-ish "*depression*-around-the-corner" didn't materialize any more than had the Hoover-ish "*prosperity*-around-the-corner." The Roosevelt-ish system of "planning it that way" *ex post facto*, as he announced in the midst of the 1936-1937 boom, is apparently the only reliable planning method.

What's "Around-the-Corner" Now?

Surely the future before us now, far from being simpler, is at an all-time high of imponderability. On the side of the pro-inflation elements we have such factors as tax reduction, ERP and rearmament expenditures, with none of the prewar slack available to satisfy the additional demand; and an early unbalanced budget with likely Treasury borrowing from the banking system. As counteracting deflationary forces, there are the antidotes of the relative smallness of the tax cut plus the defense outlay, their total representing only 3% of the nation's production of goods and services; and that an unbalanced budget, if calculated on a cash basis, may not result in an inflationary deficit of receipts below expenditures.

Underlying all the other imponderables is the question of the effect on our present consumption rate of imminent slowing-down of capital expansion, and this country's traditional counterbalancing of price rises through her unrealizedly tremendous productive capacity.

"The Visibility Is Low," Indeed

Small wonder then that such an authoritative observer as the National City Bank "Letter" cannot make up its mind, candidly stating that the forces are pulling both ways, that the "visibility is low," and that "the conclusion may reasonably be drawn that deflationary and inflationary forces are temporarily in balance." Quite similarly, even the President's (and Mr. Keyserling's) Council of Economic Advisers in its last report hedged about the predominance of inflationary or deflationary forces; and the Administration's present monetary planners are in complete confusion whether credit should be expanded or contracted. Reflecting the latter quandary, our public sees that Mr. Eccles wants to increase bank reserves at the same time that his Board colleague, Mr. Szymczak, is advocating a compromise; that the White House disapproves the former while approving the latter; and that the Treasury Department's "spokesman" maintains that far from calling for restriction of bank credit, additional bank loans and credit will be needed.

It is, it is hoped, not necessary for the writer to reiterate that it is not his intention in any way to belittle the abilities of any one, but merely to prove in even the highest places, unforecastability and hence general "unplan-ability."

* * *

To those who seek to justify the shortcomings of planning we strongly commend words of caution from Britain spoken by Professor D. H. Robertson last summer. After doubting whether democratic and totalitarian planning really differ in the quality of their ends, or merely in the effectiveness of the means at their disposal for achieving those ends, he asked: *"And if that is the only difference, is there not a danger that the 'controlled economy' will always be living on the edge of a precipice—walking on a tight-rope with its head in a cloud of make-believe?"*

How to Fight the Reds

By JOHN FOSTER DULLES*
U. S. Delegate to United Nations

Republican foreign policy spokesman calls for Federal organization with Cabinet status to combat Communist subversive warfare. Maintains for our defense we must stop Communist encirclement. Citing proverb "you cannot hit two birds with one stone," asserts we must fight the Communist Party rather than the Russian State. Favors exposing, not legally outlawing, the Party here.

I shall speak of the Soviet Communist Party; of the danger it carries to our free institutions and of the measures of defense which seem to be called for. When I speak of the Communist Party I am speaking of something that is not the Russian State or nation. The difference is not always easy to observe for often the same people act for both State and Party. But the difference is real and if we ignore it, only great good luck will bring us to our desired goal.

John F. Dulles

There is no necessary connection between the Communist Party and Russia. Communist leaders had expected that their first conquest would be the government of some highly industrialized country. But the advent of the World War I, the collapse of the Czarist government and the weakness of the Kerensky government gave the small communist group in Russia an opportunity which they boldly seized and which they have ruthlessly exploited.

Even today, the Party in Russia consists of only about 5% of the adult population. But "not a single important political question is decided without guiding direction from the party" (Stalin). Through that dominance of the Russian government the Soviet branch of the Communist Party has gained such power and prestige that it is accepted as the "vanguard" of the proletariat everywhere. But as Stalin has repeatedly emphasized, "the Soviets and the Party are not one and the same thing." "The Party is not and cannot be identified with the state power." In fact, the Party's ambitions run far beyond those of the Russian State. Already it has moved on to take control of several other governments, such as Poland, Bulgaria, Yugoslavia, Rumania, Hungary and now Czechoslovakia. Its breath is hot on the necks of several other governments. The capital of the newly-formed Cominform is at Belgrade, not Moscow. Russia could be pulverized as completely as was Germany without dealing a fatal blow to the Communist Party.

A wise proverb says that you cannot hit two birds with one stone. The Russian State and the Communist Party are two different birds. We could, if we wanted to, hit Russia as a State. We do not want to do that, for we have no quarrel with the Russian nation or its people. But if we did want to hit Russia, the stone would be a military one. That would not hit the Communist Party where it is vulnerable. Indeed, in the long run, the Party would probably be strengthened, for communism thrives on war. Its first great opportunity came out of World War I. Its second great opportunity came out of World War II. If there were World War III, it could readily gain world-wide supremacy.

We ought, therefore, to design our Russian policies with regard to whether they are to protect against the Russian State or the Communist Party.

Russia Only a Possible Menace

It would be a mistake to assume that our most serious menace comes from the Russian State and its army and that military preparedness is therefore enough. It is, of course, possible that military attack may be launched from Russia against us or our friends. Because that is possible we need to organize to meet it. But available evidence indicates that the Communist Party would

(Continued on page 36)

*An address by Mr. Dulles before the Bond Club of New York, New York City, May 6, 1948.

Canadian Securities

By WILLIAM J. McKAY

Despite previous gloomy prognostications emanating from north of the border, the optimism of close observers here of the Canadian economic situation is now proving to be strongly founded. Notwithstanding the complexity of Canada's exchange position and its vulnerability to the impact of external factors, the fundamental economic strength of the Dominion is such that only the worst mismanagement can prevent the commencement of a new and greater era of Canadian progress. On this score there would appear to be little to fear, as the character of the Canadian people and the proven capability of Dominion leadership are unquestioned.

Not only are the tremendous natural resources of Canada continuing to play their inevitable part, but the recent economic crisis, instead of retarding progress, is commencing to exert a beneficial influence on the Dominion economy. As a direct result of the breakdown of the time-honored U. S./British/Canadian exchange triangle Canada has been forced to stand on her own feet. Consequently new economic and financial policies are now being put into effect which are devised to achieve the following objectives:

(1) Correction of the chronic imbalance of U. S./Canadian trade.

(2) Granting of credit facilities to Britain and other European countries only to the extent permitted by the state of the Dominion's actual exchange surplus after provision for a minimum reserve.

(3) Less dependence on foreign sources of supply of manufactured goods and greater development of domestic resources.

Valuable results along these lines have already been achieved. Following the introduction of the "austerity program" the Canadian balance of payments to this country has slowly but steadily improved. Canada has also recently made her intentions clear concerning future extensions of credit to Europe which will be basically dependent on Canadian success in increasing exports to this country. As far as the plan for greater Canadian independence in the field of industry is concerned, a special branch of the administration under the energetic guidance of Minister of Trade and Commerce Howe is now systematically exploring ways and means to achieve this objective.

Perhaps the most remarkable and promising development that is taking place since the introduction of the U. S. dollar conservation measures is the new wave of U. S. industrial movement into Canada. This movement has become so pronounced in recent months, that it promises to rival the U. S. industrial migration to Canada which was brought about as a result of Imperial Preference. The U. S. manufacturers which have recently decided to utilize the Dominion as a base for further expansion include Remington-Rand, National Cash Register, Bendix Home Appliances, and R. C. A. Victor. These manufacturers among others who are now exploring the possibilities of establishment in Canada have in mind not only production for Canadian and Empire markets but also for U. S. and other world markets. Thus this significant trend of U. S./Canadian industrial relations promises to mark the commencement of a new and greater era of Canadian industrial development which will have a far-reaching influence on the entire Canadian economy.

During the week there was persistent strength in the external section of the bond market but there was still a notable lack of supply. The internal Dominions were also in demand in sympathy with the steady improvement in free funds. The stock markets were likewise firm led by Western oils and industrial issues. There was little interest in the golds despite expectations that the Gold Bonus Bill will imminently become law.

Boylan Chairman of NYSE Governors

At the annual election of the New York Stock Exchange the following officers were elected:

Robert P. Boylan

Chairman of the Board of Governors (for the term of one year): Robert P. Boylan, at E. F. Hutton & Co.

Seven Members of the Board of Governors (for the term of three years): John A. Coleman, Adler, Coleman & Co.; Harold C. Mayer, Bear, Stearns & Co.; Robert L. Stott, Wagner, Stott & Co.; T. Jerrold Bryce, Clark, Dodge & Co.; Lyon Carter, Estabrook & Co. (Boston); John Clifford Folger, Folger, Nolan & Co. (Washington, D. C.); Charles S. Garland, Alex. Brown & Sons (Baltimore).

Two Members of the Gratuity Fund (for the term of three years): John Rutherfurd, at Joseph Walker & Sons; John K. Starkweather, Starkweather & Co.

Five Members of the Nominating Committee (for the term of one year): I. W. Burnham, II, Burnham & Co.; Basil B. Elmer, Eastman, Dillon & Co.; Augustus B. Field, Jr., Joseph Walker & Sons; F. Dewey Everett, Hornblower & Weeks; Francis Kernan, White, Weld & Co.

Foreign Investments and Fluctuating Currencies

By ALBERT G. FLUME, C.P.A.*

Member, Committee on Foreign Trade Accounting,
N. Y. State Society of Certified Public Accountants

Mr. Flume reviews present status of foreign investments by United States companies and points out exchange and other restrictions are making capital holdings abroad unprofitable and difficult. Says currency devaluations and fluctuating exchange rates are hampering both foreign trade and foreign investments and discouraging introduction of American private capital which could help European recovery. Stresses distrust of "managed currencies."

The events of the past few months have accentuated the financial difficulties in foreign trade. The devaluation of the French franc on Jan. 25, 1948, has intensified interest in the prospect of a rise in the price of gold and heightened the expectation that sterling must be devalued ultimately. While trying to maintain sterling at the present level in terms of U. S. currency, greater austerity of living is imposed on the British peoples and the further tightening of their exchange controls.

The British Government has recently requested companies not to increase their dividends this year in view of their demand to the trade unions that wages should be pegged.

Meanwhile, the economy of the country is throttled by 2 million public servants who toil over 25,000 government regulations whilst the public responds with evasion. Added to their difficulties is a new tax on unearned income (or investment income) when this reaches $1,000 or above, and if one's total income is over $8,000, it is subject to a special contribution which for England is the equivalent of a capital levy.

The Role of the United States in Foreign Trade

Prior to the late war, sterling was the international currency. At that time, it was uncontrolled and was acceptable as a medium of exchange by all countries, by reason of the fact that England and her possessions could supply any country with almost all of their import requirements. During and after the war, her production facilities together with those of her colonies were broken down as a result of the war and she could no longer supply her export markets while maintaining necessary imports.

The only country whose economy was not as badly impaired but whose production facilities were more than sufficient to supply her internal needs was the United States. This country, being self-contained, not only could supply the import needs of other nations but freely gave of her substance to her allies in the late war and granted loans to other countries whose fiscal affairs were unbalanced as a result of the war.

Since the United States could do these things, other nations sought its products and its loans, which made it a creditor nation with exports exceeding imports—which excess must be liquidated in dollars. Thus the dollar became the standard monetary unit in foreign trade, being the only uncontrolled or free currency in the world.

Present Status of Foreign Investments by United States Companies

Most foreign countries hold forth glowing promises of business opportunities if only American capital will assist in the development of industry in their nation. We are further expected to provide the machinery and the technical skill. As a result of our national policy of supplying funds at low interest rates and easy repayment terms, they are reluctant to give private capital its fair share of the profits.

A recent issue of the New York "Herald Tribune," in an article by Mr. Raymond L. Hoadley, states in part, "The mounting difficulties of doing business in Argentina has caused several of the largest United States corporations to close down their Argentine plants. Drastic import restrictions, controls on removal of capital, high taxes and a generally hostile attitude toward American business and industry cause this reluctant decision to withdraw temporarily at least from plant operations."

The article lists the following companies who expect to close. Johns-Manville Corporation, International Harvester Co., Ford Motor Co. and General Motors.

In many South American countries, no foreign company is allowed a greater share of ownership therein than a minority interest, 49%. Among such are Mexico, Brazil, Colombia, Peru, Panama, Argentina; the latter having the further qualification that capital withdrawals are limited to 12% of the original capitalization. In fact, most Latin-American countries require fiscal controls to reside in their own nationals.

There seems to be only one way that an American company may retain more or less complete ownership of their foreign investments in South American countries and that is by means of a branch operation rather than an incorporated company. Where this method of operation is selected, it is necessary to certify to the Minister of Finance of the country the amount of capital to be employed in the operation and taxes are accordingly levied on that amount.

From all of the foregoing, it may be rightly inferred that the transfer of profits from foreign subsidiaries and branches is subject to the Exchange Control Acts of their respective nations.

Let us examine a few of them.

Canada—The Foreign Exchange Control Act was assented to Aug. 31, 1946. There was established a board known as the Foreign Exchange Control Board which is subject to the provisions of this Act, and under the control and direction of the Minister. Every bank in Canada to which the provisions of the Bank Act apply shall be an authorized dealer under this Act to deal in foreign currency as provided therein.

Canada of itself, should be in the most favorable position to have its currency accepted in the world market at face value, since it is a gold producing country and normally is well able to redeem its obligations in that metal. However, it becomes necessary for Canada to have exchange regulations because it has allotted to the mother country, England, its complete output of gold, receiving therefore sterling which has but small value outside of the British Empire, and since it cannot furnish this Dominion with all its requirements, it must of necessity buy from its neighbor, the United States; consequently, Canada has an unfavorable trade balance. It must do everything it can to restrict imports and obtain dollar credits.

Therefore, while it is a country where the export of capital is permitted, nevertheless, this permission is hedged about with the following conditions:

(1) No Canadian company may pay dividends on the stock of its wholly owned American companies while it is indebted to the bank.

(2) Whereas it was possible to declare interim dividends on a year's operations, this has been subsequently disallowed and it can only pay dividends on the results of a year's operations and then only if the company is in funds and has no bank indebtedness.

(3) However, Canadian companies who have some shareholders in foreign countries may receive a Canadian dollar check issued by a resident company in favor of a non-resident which should be presented together with a relative application called Form G to the bank on which it is drawn before it is dispatched to the payee. When the application is one that may be approved, the authorized dealer will mark the check to indicate that it is negotiable in the hands of the non-resident. If, however, the underlying transaction is one in respect of which the authorized dealer could have provided foreign exchange, he will mark the check to indicate that the non-resident payee may obtain the United States dollar or sterling equivalent of the Canadian dollar through the bank's facilities at the official rate.

(4) Whereas Canada formerly permitted dividends to be paid to American shareholders at the official rate of exchange for the full amount of the dividend, this is further restricted by a withholding tax of 5% on the amount.

(5) The Foreign Exchange Control regulations provide that a resident commercial company, branch, or firm may apply to the Board for a permit to operate an inter-company account with a non-resident affiliated company, head or branch office, with a view to effecting inter-company settlements of net credits or debits.

England—The current act governing exchange control in the United Kingdom is dated March 11, 1947. Among its exclusions are the following:

Part II, Section 5. "Except with the permission of the Treasury, no person shall do any of the following things in the United Kingdom:

(a) Make any payment to or for the credit of a person resident outside the scheduled territories; or

(b) Make any payment to or for the credit of a person resident in the scheduled territories by order or on behalf of a person resident outside the scheduled territories; or

(c) Place any sum to the credit of any person resident outside the scheduled territories."

At the present time, treasury permission is granted to transmit dollars to American shareholders in British companies in payment of dividends which are received without deduction for withholding tax. However, as stated earlier in this article, the British Government has requested companies not to increase dividends in view of their Agreement with the trade unions to stabilize wages at their present level.

While the Foreign Exchange Control Board will supply funds to pay dollar dividends to American shareholders in English companies, it will make no commit-

(Continued on page 25)

*An address by Mr. Flume delivered at technical meeting of the New York State Society of Certified Public Accountants, New York City, May 5, 1948.

Appraises Proposals for Amending "Waiting Period" Restrictions

Clark Byse, formerly of SEC staff, and Raymond J. Bradley, would have a minimum 24-hour period during which it would be unlawful to sell a new security unless the purchaser had been furnished a statutory prospectus.

In an article entitled "Proposals to Amend the Registration and Prospectus Requirements of the Securities Act of 1933," appearing in the May issue of the "University of Pennsylvania Law Review," Clark Byse, a former member of the legal staff of the Securities and Exchange Commission, now on the faculty of the University of Pennsylvania Law School, and Raymond J. Bradley, a graduate of the same school, after analyzing the various proposals with reference to relaxing the restrictions on the offering and sale of securities during the waiting period following registration, appraises the proposals, and makes suggestions for resolving their differences. According to the writers:—

The attitude of the Commission and of the industry concerning the problems disclosed by experience under the Act—the oral loophole, the dissemination-solicitation distinction and gun beating—may readily be discerned. The fundamental concern of the Commission and its staff was to plug the oral loophole and to make the statutory prospectus the main selling document. The industry, on the other hand, while not unwilling that the statutory prospectus should play a more important role than theretofore, was primarily interested in eliminating the dissemination-solicitation distinction and in being able to continue to do business on an oral basis. Elimination of the dissemination-solicitation distinction, and the accompanying legalization of gun beating was acceptable to the Commission and its staff provided the industry would agree to adoption of additional safeguards designed to make the statutory prospectus the main selling document. The industry and the Commission were unable to reconcile their differences in 1941; nor did they do so in 1947. Our resolution of those differences follows.

A. During the Waiting Period

(1) **Offers:** The objective of the Securities Act that information concerning the security should receive widespread dissemination during the waiting period seems unassailable. But the desirability of the accompanying proscription of all efforts to dispose of the security during the waiting period is not equally apparent. The established procedure of underwriting in the United States generally involves a commitment by the investment banker or syndicate to purchase the issue at a price slightly less than the public offering price. If the banker is to gauge the market accurately, he should be permitted to secure from the dealers, who will sell the security to the public, information concerning the likely reception of the issue; and the dealers in turn should be permitted to consult their customers in order to acquire the desired data. Reasonably accurate information concerning the likely public reception of the issue assists the banker to reach an intelligent and informed decision concerning the price to be paid to the issuer. The information secured from the investing public thus performs a useful economic function in that it helps the banker to make an informed price judgment. If information concerning the security is to be disseminated to the public, and if information concerning its likely reception is to be relayed back to the banker, it would be impracticable as well as undesirable to prohibit all efforts to dispose of the security during the waiting period. Impracticable, because the prohibition would not be obeyed, as experience under the present Act has rather conclusively demonstrated. Undesirable, because (i) such a prohibition would act as a deterrent to dissemination of information, again, as experience under the present Act has shown, and (ii) governmental legislation interfering with individual freedom of action should extend as far as, but no farther than, is necessary to achieve the objective of the legislation—and in this instance the objective can be accomplished by less restrictive means.

For these reasons it seems advisable to accept the industry's 1941 proposal to separate "offers" from "sales," and to permit offers during the waiting period. Although there is obvious merit in the industry's recommendation that oral offers be prohibited unless accompanied or preceded by a limited or general prospectus, we are inclined to believe that the staff's 1947 proposal unconditionally to permit oral offers in the waiting period should be adopted. In the first place, it is doubtful whether a prohibition of oral offers could effectively be enforced. The same pressures responsible for gun beating under the present Act very likely would lead to similar violations of the prohibition against oral offers. Second, since a major portion of the securities business is conducted over the telephone, it seems unwise to attempt to limit the traditional procedure for doing business unless the objective of the limitation can only or best be achieved by such a limitation; and, as will be pointed out below, the safeguards proposed to govern sales in the post-effective period should provide adequate protection. Finally, we believe that the industry proposal for making oral offers during the waiting period would tend to make the "limited" rather than the "general" or "statutory" prospectus the important selling document. Because the limited prospectus would be cheaper to prepare and disseminate than the general prospectus, underwriters and dealers desiring to make oral offers naturally would distribute the limited rather than the general prospectus prior to or contemporaneously with the making of the oral offer. Investors thus would be deciding whether to purchase the security on the basis of that abbreviated document instead of upon the general prospectus which contains in condensed form all of the material information concerning the security. Investors' judgments of whether or not to purchase a security should be based on the complete document, rather than on a necessarily inadequate summary of it. If present prospectuses are too bulky and complex, the answer is to improve their quality, not to create an inadequate substitute.

It may plausibly be urged that if oral offers are not to be regulated, a similar freedom should be extended to written offers. But there are differences which may warrant different treatment of the two classes of offers. The existence and character of written offers may be proved with greater facility than in the case of oral offers; and it is a much less burdensome interference with normal business practices to impose the following requirement in the case of written offers than it would be to impose it in the case

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The Revised Proxy Rules

By ROBERT K. McCONNAUGHEY*

Commissioner, Securities and Exchange Commission

Commissioner McConnaughey reviews the important reasons for SEC proxy rules and covers such points as exemptions and liabilities of bankers and brokers holding securities for account of customers; the clarification and publication of agendas at stockholders' meetings; solicitation of proxies both by the corporation and others; and extent of information required in the proxy statements, including publicity of remuneration given officers and directors

The recent revision of the proxy rules was intended to reflect our accumulated experience over a period of about five years since the adoption of the last previous revision. During that period certain minor defects in the rules had became apparent. In addition, a number of administrative interpretations had been made and were widely followed by the great majority of companies subject to the rules. It seemed highly desirable, therefore, to revise the rules to cure the defects which had appeared and to incorporate into the rules themselves, insofar as practicable, those administrative interpretations which had become commonplace in their administration by the Commission.

R. K. McConnaughey

I shall review briefly the more important changes involved in the revision and indicate the reasons which prompted us to make them. I shall also endeavor to state briefly the reasons why certain changes suggested by various interested persons were not adopted. However, before turning to these specific matters, I want to take this opportunity to express the Commission's appreciation for the very valuable assistance which your Society along with other organizations, companies and individuals, rendered to the Commission in connection with the revision. The comments and suggestions received were exceptionally well thought out and were a great help to the Commission in formulating the final draft of the revised rules. Even those suggestions which the Commission concluded it could not adopt for one reason or another, served to sharpen our thinking and to facilitate our decisions.

You will note that the revised rules were completely rearranged and a number of mechanical changes made in their presentation. This was done for two principal reasons. First to put the rules in form to make them more easily understood and second to make it easier to incorporate specific amendments in the future without the necessity of a general revision of the rules. I believe that, while the rules can by no means be regarded as perfect, they have reached a state of development where complete revisions every few years are not likely to be necessary. It is our intention to make desirable amendments from time to time as the need for them becomes apparent. With the rules rearranged as they now are it will be possible to adopt desirable changes more promptly. Moreover, it will be unnecessary for the industry periodically to familiarize itself with a complete new set of rules.

Turning now to specific provisions, the definition of the term "associate"[1] contained in the revised rules is the same as that contained in the old rules. This definition is not entirely satisfactory because it does not include all persons who should be treated as associates. The draft circulated for comment contained an amendment of this definition which would have extended it to all persons having a close family relationship. That amendment was criticized as being too indefinite for effective administration. We were not able to work out a satisfactory substitute without delaying the adoption of the revised rules. Consequently the definition contained in the previous rules was reinstated.

The revision made minor changes in the exemptions from Regulation X-14.[2] The principal change was made in the exemption provided for solicitations by a person in respect of securities carried in his name or in the name of his nominee, or held in his custody.[3] This exemption applies chiefly to bankers and brokers holding securities for the account of their customers. Under the old rules, in order to be entitled to the exemption the banker or broker had to furnish to the person solicited a copy of all soliciting material furnished to him by the persons on whose behalf the solicitation was made, usually the management of the issuer. He did not, however, have to furnish the soliciting material of anyone

*An address by Commissioner McConnaughey before the American Society of Corporate Secretaries, Inc., Chicago, Ill., Feb. 25, 1948.

1 Rule X-14A-1.

2 Rule X-14A-2.
3 Id, paragraph (b).

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Securities Salesman's Corner

By JOHN DUTTON

In many lines of business fear of competition is one of the greatest handicaps to success that salesmen must face. In the securities business, competitors' services or products do not loom up so large, but there are some salesmen who do worry too much about their competitors. Actually, no salesman should worry at all about his competitors. The only way to handle competition is to IGNORE IT.

If you are a constructive salesman you are going to be too busy selling your own securities and your service to even remind your buyer that you have competition. Certainly, the only way to handle any reference to a competitor's abilities, securities or services, is to be complimentary and then go on with your own job of selling your firm. No one ever gained a friend by knocking a competitor.

There are salesmen who leave one firm and go to another. They fret and stew over the possibility that they will lose some accounts by making a change. Maybe they will—but if a salesman has sold well, he will take most of his accounts along with him. If you have done a good job you don't have to worry about your customers. No one can take satisfied customers away from a salesman who is on the job. There are securities firms who make the mistake of believing that they control their customers. They do not. A good security salesman carries his accounts along with him wherever he may go. Much wasted energy could be saved by investment firms who believe they can keep customers that belonged to a salesman after he has left them to go into business for himself, or with another firm. They may save some of this business by putting other able men to work on these accounts but as a general rule a good salesman carries his business along with him. In this case too, it is unwise to worry about competition. Go out and do a constructive job of selling. Ignore competition. When you sell your products that is one thing. But when you go out and sell against your competitor's products that makes the job twice as difficult.

The other evening I was reading one of those books that are published every once in a while about Selling. To read it the way some of these theorists write it, you would think that most buyers are a pretty stupid lot. Quite frankly, if some salesman came in to see me and started off his sales talk with one of those fancy attention-getters that the book fellow said should be used when a call is made on a new prospect for the first time, I would have a hard job keeping a straight face. Tricks, fancy talk, questions, stories and what have you, are just as unnecessary when you meet a man for the first time as they are if you have known him a lifetime. There is only one way to go in and meet a new prospect. Walk up to him and be YOURSELF. No man needs to act to gain in order or to win a point. As soon as you ACT you become artificial. When this happens your entire approach to any business relationship becomes weak instead of strong. Confidence is built by plain men who speak with SINCERITY. Talk less, and make it simple. Your prospect knows that you are there for business and he doesn't mind it one bit. As soon as you start to give him a fancy, dolled up attention-arresting sales talk he will know it. If we ever wrote anything in this column about selling that was worth much in the way of advice we've said it now. Throw away the books—just be YOURSELF.

49th Golf Tourney of NY Exchange Ass'n

The Forty-Ninth Annual Golf Tournament of the New York Stock Exchange Golf Association will be held on Tuesday, June 29, it was announced by James McKenna, Chairman of the Association, for the third successive year at the Winged Foot Golf Club in Mamaroneck. About 200 members of the Exchange will tee-off and another 100 will participate in the outing after the market's close. Claude Harman, winner of the recent Master's Tournament, and club pro, will give an exhibition of long, short and fancy shots.

As in previous tournaments, prizes will be awarded for low net, low gross, runners-up, holes-in-one, most birdies and, also, to the player taking the greatest number of strokes on a hole to be selected by the committee. There will be a special event for non-golfers.

At stake will be the Governor's Cup, donated by the Board of Governors of the Exchange, which is presented annually to the player turning in low net score and which was won last year by John O. Middlebrook, of Harris, Upham & Co. For permanent possession the cup must be won three times by the same member. Low gross last year was a 74, turned in by William M. Meehan, of M. J. Meehan & Co.

Emil Schram, President of the Exchange, and Robert P. Boylan, Chairman of the Board of Governors, will be guests of honor.

New Taylor Partnership

As of June 1 a new partnership will be formed under the name of W. R. K. Taylor & Co. 120 Broadway, New York City, members of the New York Stock Exchange, the present partnership being dissolved. Partners will be William R. K. Taylor, who will hold the firm's Exchange membership; Frank H. Mifflen and John B. Lewis, general partners; Katherine P. Wear will be a limited partner.

Gold Standard Return Urged by NAM

Business group maintains four-point program, stabilizing world currencies, will stimulate return to full production.

To spur recovery abroad, the board of directors of the National Association of Manufacturers has recommended that the United States put its currency system on a gold basis without delay, it was announced May 9. Such a move, the NAM emphasized, would set a needed example to the rest of the world and encourage production in countries where people lack confidence in the present currency. The following four-point plan was recommended.

(1) Immediately remove the discretionary power now resting with the Secretary of the Treasury, with the consent of the President, to buy gold at other than a statutory price.

(2) Immediately eliminate the requirement for a license to export gold.

(3) Establish, with adequate supporting legislation, free convertibility of United States dollars into gold bullion, thereby returning the right of private ownership of gold in this country.

(4) At some subsequent time consideration should be given to restoring free convertibility of our paper currency into gold coin.

Removing the export license requirement for gold would, in effect, be tantamount to an announcement by the United States that henceforth its currency is firmly tied to gold, the NAM held.

Terming the requirement as 'nothing but a formality," the association said it is "inconceivable that the demand for gold from abroad will be sufficient to cause this country to deny its export."

Low production prevailing in countries with currencies in which people lack confidence has increased the demand on United States production and decreased the volume of exports to the United States, it was explained.

"The United States is the only country in position to lead the world back to a sound currency basis," the NAM stated.

"This country must set an example by adopting a sound monetary base, one to which every other nation can relate its own currency. This would encourage a return to production.

"There never will be world recovery until all countries increase their production. In country after country, production is being hindered because there is no medium of exchange acceptable to buyers and sellers alike. Starvation is taking place because those who have food, which they would be willing to sell for sound currency, are not willing to sell because of lack of faith in the present currency."

Return to a gold standard, the NAM predicted, will be the "greatest stabilizing influence" on world currencies.

New Oil Strike in Central Oklahoma

Old Producers, Inc., announce a producing well in Oksfuskee County in Oklahoma. The new well is currently producing at the rate of 16 barrels per hour. It is situated in a 120-acre lease, with provision for one well to each 10 acres. A second well is already underway. R. V. Klein & Co., of New York, are the underwriters for Oil Producers, Inc.

E. J. Roe to Visit NYC

E. Jedd Roe, of Roe & Co., San Antonio, Texas, will be a visitor in New York City about May 31 and will be staying at the Hampshire House.

A Look at World Bank Bonds

By JOHN H. RUMBAUGH

President, John H. Rumbaugh, Inc., New York City

Noting proposals to broaden market of World Bank debentures by permitting sale without SEC registration and by enabling purchase by savings institutions and banks, Mr. Rumbaugh contends initial financing of debentures was "a deliberate joy ride." Holds these bonds will be considered good only as long as amount outstanding does not exceed U. S. commitment to Bank's capital.

For the second time since the McCloy administration took over the World Bank about a year ago that institution has sought the help of the NAC (National Advisory Council) in getting Congress to make it easier for the Bank to sell its securities. **The Bank is concerned over the narrow market for its debentures and feels itself** hampered by the Securities Act of 1933, the Securities Exchange Act of 1934 and Section 5136 of the Revised Statutes. On April 21, Treasury Secretary Snyder, as Chairman of the NAC, transmitted to House and Senate with NAC endorsement two letters from Mr. Eugene R. Black U. S. Executive Director of the Bank, setting forth arguments for exempting the Bank from the provisions of the three Acts just named. Also Mr. Black proposed the text of a bill to permit District of Columbia insurance companies to invest in World Bank securities. If the sought-for exemptions are enacted, member banks will be permitted to deal in World Bank securities, thereby facilitating the Bank's flotations and "orderly markets."

John H. Rumbaugh

Before such changes are made in the law, hearings will have to be held by the Senate Banking and Currency and the House Interstate and Foreign Commerce committees. Congress will have to decide whether it wishes to continue as foremost objective the protection of the investor or substitute the political objectives of spreading dollars abroad. If the Bank secures the amendments it wants, World Bank securities will no longer have to be registered with the SEC.

Mr. Black wrote the NAC that, although the initial distribution of the Bank's bonds was "successful," the subsequent market has been "narrow"; and that "as the aggregate amount of its bonds outstanding increases, the Bank undoubtedly will encounter increasing difficulty in placing new issues. It is important, therefore, that the Bank's bonds shall be distributed to a widening circle of investors . . . (and that) legal restrictions which hamper the Bank in its borrowing operations should be removed." Black states that the Bank, like private issuers, could offer its bonds through underwriters without violating the present law, but such course is neither practical nor economical. Another objective: The Bank wants to be free, while preparing to float an issue, to buy and sell its own securities; or at other times to stabilize the market. Moreover, the Bank wants exemption from present regulations which prohibit brokers and dealers from extending more than 25% credit on World Bank bonds. Finally, the Bank wants national banks to be permitted to underwrite, deal in, or act as brokers for World Bank securities, thus contributing to "a sustained, active market." The present market, the Bank admits, is narrow, with "wide and erratic fluctuations."

Observers feel that last July the World Bank openly and knowingly promoted one of the biggest joy rides speculators ever had; and when joy riders cashed their profits the redistribution of the debentures disastrously bumped smack into the firming up of short-term Treasury borrowing rates. Careful readers of the financial news are not taken in by such publicity devices as the Hollywood-like ceremony introducing Stock Exchange trading in the Bank's bonds at a prearranged premium, or the recent Bank press release, announcing that operations are in the black, a transparent euphemism.

The World Bank's recent statement shows that during the nine months ended March 31 the World Bank, with its topheavy and costly overhead, had "gross income" of $12,800,000. Of this, $2,500,000 was interest paid by the U. S. on the Bank's investments, which is just another way of saying that the Bank lent to the U. S. dollars which it obtained from the U. S. in the first place. The $10,200,000 which the Bank recorded as "interest, commitment charges and commissions" on the long-term loans the Bank has been making in effect are taken right out of the loans, or, in any case, made possible only by other aid which the U. S. has been giving the Bank's borrowers. The directors and staff are constantly moving around the world. A Bank party, headed by Mr. McCloy and including the Bank's public relations director, is now on what it describes as a "tour" of Latin America. Comparison of the World Bank's overhead with the much smaller cost of the Export-Import Bank is worth while.

World Bank Bonds are classed as "good" so long as the total outstanding does not exceed the $3,175 million limit of our commitment to the Bank's capital. Is it practical to remove restrictions from the Bank's borrowing operations while it is reaching that $3,175 million limit, then reapply restrictions and possibly outlaw the securities when issued in excess of our liability? For example, if a total of $6,350 million bonds (double the amount of our liability) were issued they might be rated as 50% sound, 50% speculative and the market quoted accordingly. It may sound ridiculous, but at present the appraisal of the debentures must be based upon the liability of the only solvent nation in the combine.

Briggs, Schaedle Co. Official Promotions

J. L. MacFarland has been elected Assistant Vice-President and Secretary of Briggs, Schaedle & Co., Inc., 44 Wall Street, New York City. La Roy Roome was made Assistant Vice-President; Walter E. Suttmeier, Treasurer; and Robert D. Allen, Assistant Treasurer.

Bappert With Merrill Lynch

ST. LOUIS, MO.—Walter Bappert is associated with Merrill Lynch, Pierce, Fenner & Beane, Ambassador Building, as Assistant Cashier. Mr. Bappert was formerly an officer of Hanser & Co., Inc., which has been dissolved. Mr. Hanser has also become associated with the Merrill Lynch firm as reported in the "Financial Chronicle" of April 15.

Capitalization Problems in Real Estate Appraisals

By LEON W. ELLWOOD*
Chief Appraiser, New York Life Insurance Co.

Appraisal expert analyzes factors to be taken into consideration in fixing value of investment property. Points out value is capitalization of future net income expected from property, and selection of sound capitalization or discount rate involves not only comparison of risks, earnings, and management burden with those of other non-liquid investments, but full acceptances of conditions under with properties are purchased. Cites methods of analyzing real estate operating records.

The practice of appraising at market price was the major cause of severe losses resulting from the foreclosure and liquidation epidemic of the 1930's. Heavy losses will occur if loans are based on the market at its peak and are liquidated when the market is at or near its bottom.

The real estate market and the cost of construction are both subject to wide fluctuations over comparatively short periods. These fluctuations are due much more to speculative features inherent in the momentary condition of supply and demand than to any substantial change in the long-range prospect as to the potential use of property and the benefits from such use.

The relative stability of present worth as compared to market value and cost of reproduction can be demonstrated by the valuation of actual earnings in retrospect. An example has been selected—a typical apartment house built to house families of medium income. Good management is evident in its present condition and particularly in the fact that accurate operating records have been kept since the building was erected. The complete calculations for present worth as of each year from 1921 to 1935 are not included here, but net earnings per room for each year from 1920 to 1947, inclusive, and the method by which this stream of income was discounted to determine present worth as of 1920 are shown. The same process was used for each of the other years.

In 1924, this property had a market value of $1,800 per room. Ten years later its market value was $590 per room. This is not unusual. The market during the middle '30s was so glutted with distressed properties that many of them were sold at less than a third of their prices in the middle twenties. As of 1924 the present worth of earnings produced during 24 years was $1,017 per room. The difference between this and market value is $783. To justify this difference, $783 has to represent the residual value of the property as of 1947 discounted back to 1924.

The present worth of a dollar 24 years removed at 7½% is $0.1763. Dividing $783 by .1763 it is found that the 1947 value would have to be over $4,400 per room to justify the 1924 market value. In 1934, the present worth of earnings through 1947 was $554 per room. In this case, the difference which must represent the 1947 residual discounted 14 years is only $36. The present worth of one dollar 14 years removed at 7½% is $0.3633. Dividing $36 by .3633 it is found that the 1947 value of the property must be less than $100 per room to justify the 1934 market value.

The 1947 appraisal of the property is about $930 per room, which appears to be a plausible figure. Time alone can confirm it, but allow a 50% margin of error in either direction in this appraisal and the absurdity of the spread in market values is still apparent.

Reproduction cost was $1,410 per room in 1925, exclusive of land. In 1932, it was $940 per room. Here, too, is a fluctuation considerably larger than will be found in present worth in any seven-year period if a reasonable allowance is made for the 1947 residual.

Despite the certainty that rents and expenses and earnings will fluctuate from time to time, the market operates largely under a status-quo philosophy. A decline in rents is sure to follow the peak period, and an increase in rents is sure to follow the trough period. It is all a matter of supply and demand. They will never be constant because Solomon in all his wisdom could never make the building industry sufficiently flexible to keep rental space supply and demand in perfect balance. And so, there is the absurdity of market value at its peak when a decline in rents is about to take place and at its bottom when increases are around the corner.

Capitalization Rate

The capitalization rate makes little difference so far as the relative movement of "present worth" from year to year is concerned. If 6½ or 8½% instead of 7½% had been used to produce this series of retrospective appraisals the values, of course, would have been different. Nevertheless, the ratio of "present worth" as of one year to that of another would be about the same as indicated by the example and there would be no substantial differences in the stabilization factors.

Selection of a sound capitalization or discount rate for valuation of income property involves not only comparison of the risks, earnings and management burden with those of other non-liquid investments, but full acceptance of the conditions under which such properties are usually purchased. In the vast majority of cases, purchase can only be induced by the prospect of attractive immediate return on the necessary cash payment down to the mortgage. Therefore, the required over-all payment, including both interest and principal on available mortgage money, must be given full weight. For instance, if a two-thirds mortgage is available with a required constant payment of 6%, including interest and principal, and purchase can only be induced by the prospect of 9% on the down payment, the minimum capitalization rate should be two-thirds of 6% plus one-third of 9%, or 7%. If the mortgage requirement is 8% and the equity requirement 10%, the minimum realistic rate is two-thirds of 8% plus one-third of 10%, or 8⅔%.

Reams of advice have been published to aid the appraiser in determining capitalization rates, and there is a wealth of reference material on the useful life of various types of property—but there is a conspicuous absence of statistical information for guidance in selecting the most important factor in the income property appraisal, *the amount to be capitalized.* This void in the appraiser's working equipment is the reason that so many appraisals for mortgage investment have failed to stand the test of time.

The future income assumption must be assigned the position of paramount importance because success of the mortgage investment depends primarily upon an equitable relationship between the obligations imposed by the mortgage and the earnings of the property. Such relationship cannot be preconceived without a reasonably accurate forecast of earnings.

Experience teaches that like conditions will produce like results. All consistently successful forecasting systems are based on the application of experience to an analysis of conditions at the time of forecast. The appraiser's difficulty lies in the fact that a comprehensive quantity of experience pertinent to his problem has not been reduced to indexes. The appraiser can ascertain the exact conditions under which a property is operating at the time of appraisal, and he knows that rents, expenses and occupancy will vary from time to time, causing wide fluctuations in the net income stream—but there is no prepared data to which he can refer to get a definite figure for employment against current earnings to allow for the fluctuation which experience shows to have followed when similar property was previously operating under similar conditions.

In the absence of such data, he must rely on impressions and prejudices gained from a limited amount of personal experience. The result is, more often than not a guess or hunch which is said to be based on experience, but the reasoning process by which it is arrived at is too nebulous for explanation.

Reactions to experience in real estate often fall into two types. One is that of the optimist who feels that the conditions which adversely affected the performance of properties in the past will never be permitted to occur again and experience should, therefore be ignored. The other is that of the pessimist who, having experienced some difficulty with certain types of property, is unduly prejudiced against all such properties, regardless of the reasons for the difficulty. He is like the cat that sat on a hot stove and could never thereafter be induced to sit on a cold stove.

All types of property have been in difficulty at one time or another. Hence, a complete experience would cause the pessimist to see nothing but a dark future for every parcel of real estate. Competent appraising for mortgage investment requires a median between these extremes which can only be achieved through the development of means for bringing experience into sharp focus so that implications can be truly reflected.

Experience Tables

The experience tables of the insurance business are compiled from thousands of case histories tabulated and reduced to precise factors that can be employed against known conditions to produce a forecast devoid of guesses, hunches and wishful thinking. The outstanding success of this business in calculating risks which are no more predictable than the earnings of ordinary rental property inspires the conviction that appraisers and mortgage investors could materially reduce errors by adopting similar procedure. There is ample proof in the records to show that if this had been done at the inception of the last period of intense real estate activity, most of the improvident loans on income property would have been avoided.

Appraisers can be provided with experience tables covering the last 25 to 30 years with regard to the several classes of apartments, office space, lofts and hotels. As changes take place in supply and demand and, in general, economic conditions, the earnings of such properties will continue to fluc-

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Nationalization in Britain

By PAUL EINZIG

Remarking that British Labor Government has practically completed its nationalization program, except in case of iron and steel industry, Dr. Einzig points out if nationalization of steel industry is to be pressed, the set-up of organization will not be disturbed and government will be merely a stockholder and not manager.

LONDON, ENGLAND—When the British Labor Party embarked on its electioneering campaign in 1945, it published its program in a much-quoted pamphlet entitled, "Let's Face the Future!" In this document, it declared its intention of nationalizing the Bank of England, coal, electric power, transport, gas and iron and steel. With more than two years to go until the next general election, all this, except gas and iron and steel, has been nationalized. The bill providing for the nationalization of the gas industry is well on its way, and will be passed before this summer. There remains the nationalization of iron and steel to complete the five-year program.


Dr. Paul Einzig

A bill providing for the nationalization of iron and steel is understood to be in draft, and is expected to come before Parliament in the late autumn or early winter. It pursues a different course from the legislation nationalizing coal, electric power, transport and gas. All these nationalizations followed an identical pattern. A National Board was set up to exercise supreme control, through the intermediary of regional boards. The government department concerned, through the National Board, controlled the industry. The adjustment of its management to the new system of control required very extensive reorganization. And reorganization at short notice brought with it a certain degree of disorganization.

The Government realizes that Britain cannot afford at the present stage a disorganization of the iron and steel industry. A fall in steel output would have a crippling effect on British economy. Nevertheless, political considerations are likely to prevail, and the Government prefers to face economic disadvantages rather than expose itself to the opposition of Left-wing Socialists by postponing iron and steel nationalization. A formula had to be found, however, to reduce to a minimum the disorganization through nationalization.

Under this formula the Government is to acquire all the stock in corporations engaged in the production of iron and steel. It will henceforth be the sole stockholder of these corporations. And instead of placing them under the unified management of a National Board, it will confine its role to that of a private stockholder, exercising control but leaving the management in the hands of existing executives. The individual character of each corporation will be retained.

The reason for the choice of this method does not lie solely in the desire to avoid a reduction of the output through a sudden and untimely reorganization. It is due partly to the fact that many corporations engaged in the production of iron and steel also control a wide variety of subsidiary industries. Control of the parent companies would mean control of all this wide range of industries. It would be extremely difficult for a single National Board to cope with them. The industries hitherto nationalized were comparatively simple, their subsidiary industries could be divorced from the controlling corporations, or they could be carried on by the National Boards. Not so with iron and steel. To sever the subsidiary industries would in many cases cause irreparable heavy losses. And to manage them centrally would be beyond the power of the National Board. Hence the decision to leave the subsidiary industries in the hands of the present management. The latter would be controlled by the Government, it is true, but, to begin with at any rate, this control would not entail more interference than the management is subject to at present on the part of the principal stockholders.

There is no likelihood of any further nationalizations beyond iron and steel before the next general election in 1950. But plans are prepared for the second "five year plan" of Socialism in Britain. It is probable that the next election program will include the nationalization of engineering, automobile, shipbuilding and chemical industries. The workmen in some of these industries are already very impatent and are pressing the Government to proceed with nationalization. To restrain their impatience, possibly the Government may take steps to achieve the compulsory creation of joint boards through which employees would secure an influence on the management of industrial undertakings.

There is much talk about the possibility of the nationalization of land and houses. It is, however, too difficult and possibly the Socialist leaders will prefer to postpone it for the third term of five years. Likewise there is much hesitation about the nationalization of commercial banks. Until recently this item headed the short list of projected nationalizations after 1950. But the strong reaction of public opinion in Australia to the nationalization of commercial banks has made the Government think again.

Shipping is also among the interests which are intended to be nationalized, though not necessary before 1955. Chain stores are under consideration, but on balance it seems probable that they will be left in private ownership for the present.

Some moderate Socialists are beginning to feel that nationalization has already gone too far. They fear that if it should go much further the taxation of the profits of privately owned industries will no longer suffice for covering the losses of nationalized industries.

Name Now Republic Research Corporation

W. R. Bull Management Co. Incorporated, 15 William Street, New York City, has changed its corporate name to Republic Research Corporation. The firm will continue to act as investment adviser and principal underwriter of Republic Investors Fund, Inc. and their subsidiary, Sovereign Corporation, will continue to act as investment adviser and principal underwriter of Sovereign Investors, Inc. William R. Bull will continue actively in charge of the company's affairs as its President.

1948 Monetary and Credit Developments

By J. BROOKE WILLIS*
Assistant Professor of Banking, Columbia University

Dr. Willis reviews effect on money market and banks of Treasury's policy of using surplus cash to reduce banks' government bond holdings. Says if it were not for repeated War Loan calls, money market conditions could be eased. Sees rise in government short-term rates, but points out rise will be moderate, in order to avoid switch of investors from long-term issues.

The first quarter of 1948 furnished an impressive demonstration of the restrictive influence of applying surplus receipts of the Treasury to the redemption of government obligations held by the Federal Reserve Banks. In response to fairly continuous pressure on their reserve positions member banks were forced to liquidate securities. Loan expansion was curtailed and deposits contracted. Excess reserves of the member banks fell by 899 million dollars. Weekly variations in the forces which caused this decline are set forth in the accompanying chart.

The primary force tending to reduce bank reserves was the net inflow of cash receipts to the Treasury's accounts with Federal Reserve Banks, amounting to $6,183 million. Only a small part of these net receipts were returned to the money market. $717 million were returned through redemptions of government obligations held outside the Federal Reserve System (included in Chart in "All Other Factors"). Also $284 million of Treasury receipts were used to purchase government securities for the Treasury's trust and agency accounts (combined in Chart with Federal Reserve System support purchases). Thus less than 20% of net Treasury receipts were restored to the money market.

In order to prevent Treasury receipts from being returned to the money market the authorities deliberately applied the major portion of receipts ($3,696 million) to the payment of government securities held by the Federal Reserve Banks and thereby permanently withdrew the funds from the market. In addition, a smaller part of Treasury receipts ($1,223 million) remained on deposit with the Federal Reserve Banks and was thus withheld for the time being from the money market.

The potentially drastic effect of the tax drain was neutralized in considerable measure by a variety of offsetting forces. (See Chart.) Gold imports added $382 million to bank reserves and return flow of currency contributed $1,083 million. Because of the contraction in deposit liabilities, member bank required reserves were reduced by $361 million, despite an advance on Feb. 27 of 2 percentage points in the required reserves of New York City and Chicago banks.

The most important offset to the tax drain was the "aggressive" market purchases of government securities by the Reserve System and by the Treasury trust and agency accounts. These purchases, totaling $2,308 million, supported the yield curve as revised on Dec. 24, 1947. Purchases would probably have been less than they were if relatively more of the Treasury's surplus had been used to redeem government securities held outside the Federal Reserve Banks. But in that event the Treasury's surplus would not have exercised the desired restrictive pressure on bank reserves.

The Treasury will probably not experience a cash operating surplus in the second quarter. Rough estimates which take into account the reductions in personal taxes under the Revenue Act of 1948 indicate that Treasury receipts may approximately cover Treasury expenditures. Consequently, if further redemptions of maturing securities held by the Reserve Banks are to be made in order to prevent an undue rise in excess reserves, the authorities must use funds already on deposit in the War Loan accounts.[1] The amount of such redemptions will depend upon the extent to which reserves may be increased by such factors as market purchases of government securities by the Federal Reserve Banks, gold imports, etc.

Substantial calls must be made upon War Loan accounts regardless of the possible further retirement of government securities held by the Reserve Banks. These calls are necessary because since March 22 an increased proportion of current Treasury receipts is being deposited initially in War Loan accounts instead of with the Federal Reserve Banks. In the second quarter about $2,000 million of withheld taxes will be so diverted. Consequently, large amounts must be called from War Loan accounts to cover operating expenditures as well as redemptions of debt paid from the Treasury's working balance with the Federal Reserve Banks. Total calls in the second quarter may reach $3,500 million and will be particularly heavy in June.

If it were not for the influence of repeated War Loan calls, money market conditions during the next few months would be eased. In any event, the disappearance of the Treasury surplus, together with the evident commitment to maintain the long-term rate, greatly diminishes the power of the authorities to control credit. In periods of Treasury deficits the redemption of securities by Federal Reserve Banks will require borrowing from the commercial banks unless the sale of savings bonds and of other securities to non-bank investors can be increased. Unlike taxation the borrowing of funds from commercial banks for the purpose of retiring securities held by the Federal Reserve Banks is not likely to prove restrictive as long as the yield curve is pegged by the Reserve System. If the yields selected for pegging are too low the Reserve Banks will perforce absorb securities and thereby enlarge member bank reserves. Consequently, short-term rates on government obligations will probably be allowed to rise in order to enhance their relative attractiveness to investors. Increases in short-term rates will of necessity be of modest proportions as otherwise the yield curve may be unsettled by the switching of investors from longer-term to shorter-term securities. In view of this dilemma Governor Eccles' testimony on April 13 before the Joint Committee on the Economic Report is of more than passing interest. His renewed recommendations for power to compel banks to hold short-term government securities as part of their required reserves is now advocated as being essential to facilitate short-term Treasury borrowing from the commercial banks.

Detailed Analysis of Monetary and Credit Developments in The First Quarter

The principal sources and uses of Treasury cash funds during the first quarter (Dec. 31, 1947 to March 31, 1948) are summarized below:

Sources of Funds
(in millions)

Net cash operating receipts	$6,183
Net sale of savings bonds	684
Net sale of savings notes	55
Miscellaneous	31
Total	$6,953

Uses of Funds
(in millions)

Cash redemption of marketable Government securities held by:	
Federal Reserve Banks	$3,696
Others	717
Net purchases of marketable securities by Treasury trust and agency accounts	284
Increase in General Fund balance	2,256
Total	$6,953

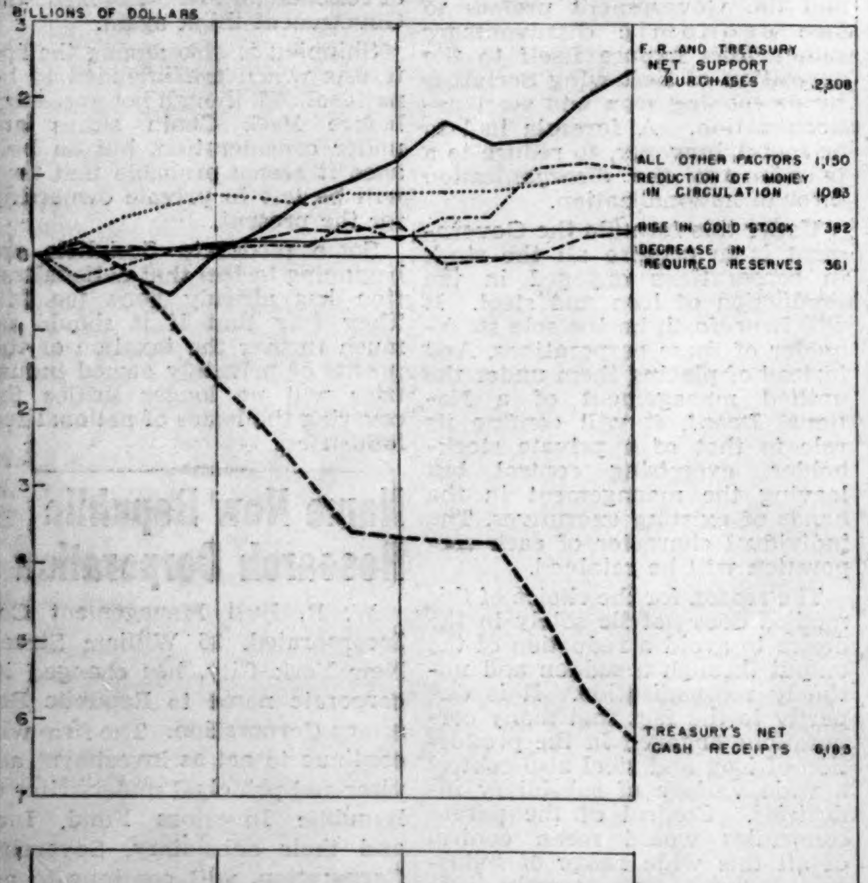
Sources of Funds—In addition to net operating receipts of $6,183 million, the Treasury obtained $739 million from the net sale of savings bonds and notes. The latter figure was about $211 million less than in the first three months of 1947.

Uses of Funds—The principal use of funds was the redemption of $3,696 million of maturing marketable government securities held by the Federal Reserve Banks. This use of receipts was the chief restrictive force affecting the reserve positions of member banks. The cash redemption of marketable securities held by others was only $717 million. Market support purchases of government securities by the Treasury's trust and agency accounts amounted to $284 million.

*A review prepared by Dr. Willis for Department of Financial and Business Research of the Chase National Bank and published in "Financial Highlights," April 27, 1948, issued by the Department.

[1] Net sales of savings bonds may furnish $500 million depending on the success of the Security Loan Drive from April 15 to June 15, but voluntary "turn-ins" of marketable debt may exceed this figure.

CUMULATIVE CHANGES IN FACTORS AFFECTING EXCESS RESERVES OF MEMBER BANKS
December 31, 1947—March 31, 1948



The Future of the Farm Market

George Krieger warns against drastic repercussions on nation's economy which would ensue from curtailment of agricultural buying power.

A sharp warning against curtailing farmers' buying power because of the unprecedented importance of today's farm market, was sounded by George Krieger, agricultural engineer of Ethyl Corporation, speaking before the American Marketing Association in New York City on May 7, 1948.

George Krieger

"The future of the specific farm market — in contradistinction to the rural or suburban market —is a continuation of the trend toward fewer but larger farm units," said Mr. Krieger, "greater farm capitalization; larger capital and operating expenditures for production goods; smaller expenditures for consumption goods because of the diminishing of the number of farmers; but a net total overall greater cash contribution to business and industry. At the same time, this greater contribution brings a negative; a threat to the balance of the economy because of the greater reliance on farm spending."

"Clearly then, both from standpoints of hoped-for profits and fear of a farm-caused depression, the farm market becomes of vastly more importance to any seller in that field than it was before the war, or, for that matter, ever before in history," continued Mr. Krieger. "When farmers were buyers of a small amount of production goods and a somewhat larger amount of consumption goods, their total impact on the economy was difficult to see or to evaluate. Now that they are large buyers of heavy industrial (machinery and equipment), chemical, petroleum and structural supplies and relatively smaller buyers of consumer goods, any curtailment of buying power must have a sharp impact on the industrial and commercial economy."

"The farm market, then, is not something merely to woo for expected profits," Mr. Krieger concluded. "It is also something to study, to follow closely, as a clue to general economic health. More than ever before, we must have a stable farm economy to insure a stable general economy."

Halliburton Common Stock Being Offered

Lehman Brothers and Blyth & Co., Inc. head a nation-wide group that offered publicly May 12 680,000 shares of common stock, $5 par value, of Halliburton Oil Well Cementing Co., at $25 per share. Of the 680,000 shares offered, 600,000 are being sold by Mr. and Mrs. Erle P. Halliburton and 80,000 by The Atlantic Refining Co. Mr. Halliburton is Chairman of the company and its principal executive officer. In addition, Mr. and Mrs. Halliburton are offering 50,000 shares of common stock to employees of the company at $22.50 per share. After the stock sale, including the shares offered to employees, the Halliburtons will each own 31,000 shares and Atlantic Refining will own none. The remainder of the company's common stock, 520,000 shares, is owned beneficially by seven stockholders, each of whom has advised the company that it has no present intention of disposing of any of the shares so owned.

The company, whose principal office is located in Duncan, Oklahoma, was originally engaged in the oil and gas well cementing business. In addition, it now offers retrievable cementer, oil well formation testing, oil well acidizing, dump bailer and electrical well services. The company also owns manufacturing facilities for the production of both the specialized equipment used by it and tools and equipment for sale to the oil and gas industry.

The field operations of the company are conducted in 19 states in the United States and a foreign division operates in several foreign countries.

For the fiscal year ended Dec. 31, 1947, the company's consolidated gross revenues amounted to $40,862,690, and net income was $4,801,687. In addition to 1,312,000 shares of common stock, the company has outstanding $3,000,000 of 2½% serial notes, due 1949-1953.

It is expected that application will be made to list the company's common stock on the New York Stock Exchange.

NEWS ABOUT BANKS AND BANKERS

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED CAPITALIZATIONS

Announcement was made on May 7 by the New York State Banking Department of approval on April 30 of a certificate of increase of capital stock of the **Bank of New York** from $6,000,000, consisting of 60,000 shares (par $100 each), to $8,000,000, consisting of 80,000 shares, par $100. The increase occurs incident to the merger of the **Fifth Avenue Bank of New York** into the Bank of New York, under the title of the **Bank of New York and Fifth Avenue Bank**. The most recent item in these columns relative to the merger appeared in our issue of May 6, page 2000.

* * *

Talbot Babcock, formerly Assistant Vice-President of **The Continental Bank and Trust Company of New York,** has been elected an Assistant Vice-President at **Bankers Trust Company of New York** and Martin N. Hendrick has been promoted to the position of Assistant Secretary, it was announced on May 8 by S. Sloan Colt, President. Mr. Babcock was associated with The Continental Bank for 17 years and was an officer in the banking department. He is a member of the Robert Morris Associates, bank credit organization. Mr. Hendrick has been a member of the corporate trust department staff and has been with Bankers Trust Company for 19 years.

* * *

Harvey D. Gibson, President of **Manufacturers Trust Company of New York,** announced the retirement of Charles A. Smith, Vice-President, at an officers' dinner at the Hotel New Yorker on May 5. Mr. Smith started with the bank on May 1, 1899, then known as The State Bank, when he was employed as a messenger. Advancing through the bank's many departments, he was promoted to Executive Vice-President and director at the time Harold Richard, now a director of Manufacturers Trust Company, was promoted to President. Upon his retirement Mr. Smith was Vice-President at the bank's head office.

* * *

E. Chester Gersten, President of **The Public National Bank & Trust Co. of New York** has announced the following appointments at the main office: Joseph M. Barnes, Assistant Cashier, was appointed an Assistant Vice-President; Edward D. Tisch, was appointed an Assistant Cashier.

* * *

Friday evening May 7, at the Arion Club in Brooklyn, the employees of the **Roosevelt Savings Bank of Brooklyn, N. Y.,** produced the first musical extravaganza in the bank's history called "Bank Notes of 1948." More than 350 trustees, officers, employees and friends of the bank attended. In the cast were 17 of the bank's employees, who wrote the show and built the scenery. The production was directed by a professional coach, who provided the orchestra for dancing after the performance Adam Schneider, Jr., President of the bank, spoke briefly commending the employees in demonstrating their resourcefulness in producing the show which he described as equaling those of professionals.

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An increase in the capital of the **Bank of Port Jefferson,** at **Port Jefferson, N. Y.,** from $100,000 to $500,000 was approved by the New York State Banking Department on April 30. At the same time the Department made known the filing of an agreement of merger of the **First National Bank of Port Jefferson** into the Bank of Port Jefferson. The change of the name of the latter to the **Bank of Northern Brookhaven** was also approved by the Banking Department on April 30, and the merger is to be effected under that title.

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Reuben G. Clark, Vice-President of the **State Bank of Albany, N. Y.,** has been elected President of the **Savannah Bank & Trust Company of Savannah, Ga.,** it was stated in the Albany "Times-Union" of May 5, which reports that he will take over his new duties about June 1. The Albany press advices also said:

"Mr. Clark came to Albany nearly 20 years ago as a representative of Dillon Reed & Co. He joined the State bank in 1929. After serving as Cashier, he was elected Vice-President in 1936. He is a native of Rome, Ga., and for many years lived in Savannah."

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Frederick W. Macomber, Vice-President and Treasurer of the **New Britain Trust Company of New Britain, Conn.,** died on May 1. The Hartford "Courant" reports that he had been associated with the trust company for about 40 years.

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The election of S. Guernsey Jones, the Vice-President of **National Newark & Essex Banking Co. of Newark, N. J.,** as a director of Dime Savings Institution was announced on May 7 by Alvah S. Amerman, President of **Dime Savings Institution of Newark,** according to the Newark "Evening News," which states that Mr. Jones is Vice-President of New Jersey Association of Credit Executives and Chairman of the Foreign Trade Council of the Newark Chamber of Commerce.

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The election of Gary M. Underhill as Executive Vice-President of The **Charter Bank of Philadelphia** was announced on May 10 by President Ralph W. Pitman. The Charter Bank, with its predecessor **The Morris Plan Company,** will celebrate the 35th anniversary of its founding on June 9. President Pitman is well known both as a banker and as Treasurer of the City of Philadelphia.

Mr. Underhill has been executive director of the Consumer Bankers Association, with national headquarters in Washington, D. C. for the past three years. During the war, he was a Lieutenant in the Naval Reserve, assigned to the Executive Offices of the Secretary, Navy Department, Washington. Prior to the war, Mr. Underhill was Assistant Vice-President of the state-wide Bank of Virginia, in the main office at Richmond. He served as President of the Richmond Junior Chamber of Commerce, director of the Virginia State Junior Chamber of Commerce, and has been identified with various other civic committees. Mr. Underhill has also been a member of the National Public Relations Committee of the American Institute of Banking and the Committee on Banking Education and Public Relations for the Virginia Bankers Association.

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The National Bank of Wyandotte, at Wyandotte, Mich., increased its capital, effective April 21, from $200,000 to $260,000 by the sale of new stock, it was announced by the Office of the Comptroller of the Currency on April 26.

Controlling interest in the **First National Bank of Hopkins, Minn.** has been purchased by the **First Bank Stock Corp. of Minneapolis,** it is learned from the Minneapolis "Star" of April 29, which in part said:

"Announcement of the sale was made today in a joint statement by F. H. Kriz and W. A. Zastrow, Chairman and President, respectively, of the Hopkins bank, and A. H. Kennedy, President of the corporation. Through purchase of this interest by First Bank Stock, the Hopkins bank becomes affiliated with 74 other First group banks operating 79 banking offices in Minnesota, the Dakotas and Montana, among them First National of Minneapolis.

"The Hopkins bank has a capital structure totaling $214,476 and deposits of $3,874,000. In addition to Messrs. Kriz and Zastrow, other officers are O. G. Cermark, Vice-President; S. H. Severson, Cashier, and Mrs. D. M. Bergmann and William L. Moran, Assistant Cashiers."

* * *

Approval by the Comptroller of the Currency of the consolidation of the **First Security Bank of Utah, National Association,** and the **First National Bank of Salt Lake City, Utah** was made known by the Comptroller's office on May 3. The consolidation was effected under the charter and title of First Security Bank of Utah, N. A., with common capital stock of $3,000,000, divided into 120,000 shares of the par value of $25 each, and a surplus of $3,000,000. The First Security Bank had a capital of $1,200,000, while the capital of the First National Bank of Salt Lake City was $1,000,000. The consolidation was made effective as of the close of business April 30.

* * *

Oscar N. Beasley, who recently relinquished his duties as President of the Beverley Hills (Cal.) National Bank & Trust Co., to continue in active service as Chairman of the board of the institution, celebrated on May 5 the 60th anniversary of his entry into the banking field, according to the Los Angeles "Times." A reception in his honor was tendered Mr. Beasley on the occasion by the officers and directors. Mr. Beasley's son, Robert S. Beasley, who had been Vice-President, has succeeded him in the Presidency.

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In a series of changes on April 27 by directors of the **Seattle-First National Bank of Seattle, Wash.,** Charles D. Saunders was elected Vice-President of the bank and five members of the bank's staff received promotions. As to these changes, the Seattle "Times" of April 28 stated:

"Lawrence M. Arnold and Thos. F. Gleed, Chairman and President, respectively, announced the advancement of Richard C. MacDonald and Joseph E. Muckley from Assistant Vice-Presidents to Vice-Presidents; W. Gleen Jackson, Manager of the Dayton branch, to Assistant Vice-President; Gus Asplund, Jr., to Assistant Cashier, and Harrison C. Ellsbury, from the main-office credit department to Assistant Manager of the Georgetown branch in Seattle."

From the same paper we also quote:

"Mr. Saunders, who has been a Vice-President and director of the **First National Bank of Omaha,** is expected to assume his new post here about June 1. He was President of the Omaha Chamber of Commerce in 1945; formerly was prominent in banking in Iowa, and later was Treasurer of the Bankers Bond & Share Co. of Omaha. As Chairman of the Omaha Power District's finance committee, he arranged that district's $42,000,000 financing program."

Public Utility Securities

Utilities Lag in Bull Market

Despite the fact that the utilities enjoy continued and almost unlimited growth prospects they have participated only modestly in the recent "bull market." The Dow Jones utility average has advanced only from 31.65 (the year's low) to 34.55 (May 7 close), while rails have jumped from 48.13 to nearly 59, and industrials from 165 to 182. Of course the rise in the industrial group has been highly selective, with oils probably making the best showing.

The slightly disappointing action of the utility stocks may be due in part to irregular earnings statements for the first quarter, and fears that the utilities will at last be unable to absorb rising costs through larger gross revenues. In recent weeks the rate of gain for kwh. output has receded slightly to around 8-9%, while fuel costs have continued to rocket upward, due to (1) higher prices for coal and oil; (2) increased rail rates; and (3) continued use of inefficient steam plants due to unfavorable hydro conditions in many sections, plus heavy operations.

Thus far in 1948, however, the electric utility companies have made a fairly good showing. January net from operations for all class A and B electric utilities was down 4.6% and February was off 2.0%, as compared with 1947. Net income after charges was off 10.2% in January but gained .9% in February. It may be of interest to take a look at the February figures and see how the companies were able to balance their income account despite an increase of 43.6% in fuel costs (now almost equal to the amount of net income itself). Gains and losses (in millions) were as follows:

Gains—		
Revenues		$39.0
Miscellaneous income		1.7
Lower amortization, etc.		1.1
Total gains		$41.8
Losses—		
Fuel	$18.3	
Wages	8.1	
Miscel. expenses	8.6	
Depreciation	2.1	
Taxes	3.3	
Interest	0.8	
Total losses		$41.2
Gain in net income		$ .6

These results were obtained despite a decline in residential rates, partially offset by higher industrial rates as the result of fuel adjustment clauses. On an overall basis, average revenues per kwh. were slightly higher in February this year compared with a year ago.

As regards fuel costs, drought conditions have now eased in California, and to some extent elsewhere. Fuel consumption for all electric utilities in March was 11% under that of January. Production of power by hydro generators increased about 2½% over last year, whereas the increase in February was negligible, and in January there was a substantial decrease.

New generating stations are now beginning to replace obsolete equipment, the net gain in capacity in March being 293,000 kw.; in February, 465,000 kw., and in January, 108,000 kw., making the amount for the quarter 866,000 kw. and bringing the total up to 53,077,000. If this rate of growth continues the 1948 gain would be nearly 3½ million kw., or about a 6.6% increase. With further improvement in the hydro-electric situation this should relieve mounting fuel costs. Of course, Mr. Lewis will doubtless seek another wage hike in June, resulting in another increase in coal prices, but the present industrial trend indicates general opposition to a third round of wage increases. Even if prices advance, the utilities may be able to absorb this punishment if they are favored with good rainfall and their new equipment comes through promptly.

Some of the apathy toward the utility stocks may also have been traceable to lack of important developments in the holding company field. While some progress has been made, notably with Electric Power & Light, Public Service of New Jersey, and United Corp., in general the recent tempo has been slow, and there have been few special moves in holding company securities.

Natural gas stocks have continued to reflect the special interest in this branch of the industry, which is showing steady though not spectacular improvement in earnings.

Electric utilities can not be classed as inflation stocks, but the fears that they must necessarily suffer from inflationary price trends have now been somewhat dissipated. With the present growth of business limited only by available capacity, and with fixed charges showing little increase, investors may again be tempted to purchase electric utility equities for their generous yields, which currently average around 6.7% and range as high as 8-9% for many stocks.

Municipal Bond Club Of Phila. Elects

PHILADELPHIA, PA.—At the Seventh Annual Luncheon Meeting of the Municipal Bond Club

Freeman G. Grant

of Philadelphia, the following officers and governors were elected:

President, Freeman G. Grant, Dolphin & Co.; Vice-President, William F. Mills, Philadelphia National Bank; Secretary, George J. Hanley, Walter Stokes & Co.; Treasurer, William Battin, Yarnall & Co.

Governors: Robert V. Wehrheim, Philadelphia National Bank; Russell M. Ergood, Jr., Stroud & Co.; John H. Derickson, Jr., E. H. Rollins & Sons, Inc.

E. E. Parsons, Jr., Dir.

E. E. Parsons, Jr., of Wm. J. Mericka & Co., Cleveland, and Robert W. Kerr have been elected Directors of Billings & Spencer Co., Hartford, Conn., manufacturers of forged hand tools.

Mr. Parsons is a Director of the Bingham-Herbrand Corporation.

Mr. Kerr is a Vice-President and Director of the Bingham-Herbrand Corporation and formerly Executive Vice-President and Sales Manager of the Plomb Tool Co. He is a member of the Executive Committee of the American Hardware Manufacturers Association and a Director of the National Standard Parts Association.

The Revised Proxy Rules

(Continued from page 19)

else who might be soliciting proxies for the same meeting or subject matter. As the banker or broker is exempted from compliance with the regulation on the assumption that he is a disinterested intermediary, it seemed only fair and appropriate that where more than one solicitation is being made with respect to the same meeting or subject matter he should forward to the person solicited copies of all material furnished to him by either the management or the opposition. However, the revision entitles the banker or broker to reimbursement for his reasonable expenses. Although he is expected to act only as an intermediary for others, the exemption permits him to give the person solicited appropriate instructions as to the execution and forwarding of the proxy or to request instructions from the person solicited as to the manner in which the proxy should be executed.

The previous rules required than an annual report should be sent to security holders prior to any solicitation involving the election of directors. That provision operated to require the sending of an annual report in connection with special meetings where only one or two directors were to be elected to fill unusual vacancies. In order to avoid this, the revised rules require an annual report to be sent to security holders only in connection with annual meetings at which directors are to be elected.[4]

The old rules also required the annual report to be sent to the Commission at the time it was sent to security holders. Under the revised rules, where the annual report goes out to security holders in advance of filing the preliminary proxy material with the Commission the report need not be forwarded to the Commission until the perliminary proxy material is filed.[5]

Clarification of Agenda

The new rules require that the proxy form shall identify clearly and impartially each matter or group of related matters to be acted upon whether proposed by the management or by security holders.[6] That requirement is not intended to prevent the management from identifying its proposals as such, but is intended to prohibit any presentation which will de-emphasize or obscure in the proxy form proposals put forward by security holders. The proxy statement is the proper forum for argumentation and persuasion and the proxy form should not be used for this purpose. The inclusion in the form of proxy of recommendations or other devices designed to emphasize the management's proposals at the expense of those put forward by security holders is like electioneering at the polls and should be avoided.

Both the old and the revised rules provide that the security holder shall be afforded an opportunity in the proxy form to approve or disapprove each matter or group of related matters to be acted upon pursuant to the proxy, other than elections to office. The revised rules permit the holder of the proxy to exercise reasonable discretion in those cases where the security holder does not indicate a choice, but the proxy form must indicate the bona fide intention of the proxy holder as to the manner in which unmarked proxies will be voted.[7]

The comments of your Society on this particular rule stated that the Commission is apparently attempting to change the basic concept of corporate law to one in which the stockholders participate in the corporation's affairs, not through discussion but by absentee ballot. It seems to me that that analysis is not wholly accurate. It overlooks the fact that the Commission has done nothing to limit discussion by stockholders of corporate affairs. That phenomenon is merely one consequence of the historical development of corporations. What the Commission is attempting to do through this rule is to preserve and facilitate stockholder participation in corporate affairs in the face of the circumstances that have evolved in corporate affairs. Under the present conditions it is impossible for any considerable portion of a large corporation's whole body of stockholders to journey to its principal offices and participate in stockholders' meetings. The proxy rules attempt to provide a workable substitute, whereby the stockholder is given full information as to the proposed agenda in the proxy statement and in the proxy form is given an opportunity to express his wishes as nearly as practicable in the same manner as he would express them by voting in person at the meeting.

Selection of Auditors

Your society also urged in its comments that the selection of auditors be treated in the same manner as the election of directors or officers; that is, that stockholders be permitted to vote for, but not against, particular auditors. While it may be true that a large number of widely scattered stockholders can not select auditors, they can register their disapproval of a selection tentatively made by the management. Because of the important position which auditors occupy, it seemed to the Commission important not only that they should be approved by a majority of the stockholders but also that stockholders should be given an opportunity to register their disapproval.

Up until the latest revision of the proxy rules, follow-up soliciting material was not required to be filed with the Commission before being sent to security holders, although it was required to be filed concurrently with such transmission. As a result it frequently happened that inaccurate and misleading follow-up material was sent to security holders without the Commission having an opportunity to review the material and point out its inaccurate or misleading character. Furthermore, a number of cases occurred in which follow-up material was used to convey to security holders false or misleading statements which had been deleted from the proxy statement at the insistence of the Commission. Accordingly, the revised rules require that follow-up material must be filed with the Commission at least two days (exclusive of Saturdays, Sundays or holidays) prior to the date when such material is sent to security holders.[8] Provision is made for shortening the two-day period and it is expected that in most cases follow-up material will be "cleared" fairly promptly.

Proxy Solicitations

For similar reasons the new rules require the advance filing with the Commission of written instructions furnished to personal solicitors for their use in soliciting proxies.[9] However, such instructions are required to be filed only where they discuss or review, or comment upon the merits of matters to be acted upon.

The revised regulation continues in effect the rule requiring the management of an issuer to mail a stockholder's soliciting material for him.[10] Numerous and varied suggestions were made for changing this rule. Most of the suggestions would have resulted in severely limiting or restricting the usefulness of the rule. The Commission's experience has been that the privilege accorded by the rule has not been abused to any great extent. Accordingly, most of the suggestions were rejected However, certain changes were made in the rule which we believe are likely to make it operate more efficiently. In the first place the revision makes it clear that the management is entitled to reimbursement for any expenses incurred in complying with a stockholder's request for information preparatory to the mailing of soliciting material and for expenses incurred in connection with the mailing of such material. Certain persons, of which your Society was one, in commenting on the proposed revision expressed a lingering fear of liability for mailing libelous material. As a practicable matter this has not proved to be a substantial problem.

The previous rules were not clear as to the circumstances under which the management was required to mail material to beneficial owners of securities. The new rules provide that if the management intends to solicit beneficial owners through bankers, brokers or other persons, it shall also see to it that sufficient copies of the stockholder's soliciting material are placed in the hands of such bankers, brokers or other persons as will enable them to supply copies to all such beneficial owners.

The revised rules contain a new provision that in lieu of furnishing a stockholder information as to the cost of mailing his soliciting material, or of mailing the material for him, the management may supply the stockholder with a reasonably current list of security holders in order that he may transmit his material to them.[11] This provision, however, is entirely optional with the issuer.

The revised regulation also continues without substantial change the rule requiring the management to include a security holder's proposal in its own proxy material and to include also a one-hundred word statement by the security holder in support of the proposal if the management intends to oppose it.[12]

In the comments on the proposed revision there were suggestions for extending the scope of this rule and also for limiting it one way or another. For example, it was suggested that managements should be required to give 60 to 90 days' notice of intention to solicit proxies and to invite proposals from stockholders. It was also suggested by way of extension that the category of proposals which must be submitted to stockholders by the management should be enlarged to include matters of general interest to stockholders and that the one-hundred word limit in support of such proposals should be increased. On the other hand it was suggested that the number of times a proposal might be repeated should be limited or that the proposal need not be included if it had already failed to receive a certain percentage of votes or if the security holder did not own a certain minimum amount of securities. We feel that the rule has had a salutary effect during the period it has been in effect in that it has provided a convenient medium through which a stockholder may place worthwhile proposals before his fellow stockholders and has tended to increase the responsiveness of managements to the wishes of the stockholders as a whole. Our records show that the rule has not been abused; in fact security holders have resorted to it much less frequently than it was originally expected they would. During the past five years less than 2% of the companies complying with the proxy rules have included stockholder's proposals and one-hundred word statements in their proxy material. The Commission felt that the requested extension of the rule would tend to convert stockholders' meetings into a forum for the endless discussion of economic and political questions not directly related to the business affairs of issuers. It also felt that the placing of limitations upon the rule at this time was unnecessary. Of course, if in the future the rule should come to be used to harass issuers unduly, the Commission can always adopt appropriate amendments based on what experience.

Information Required in Proxy Statement

I will not attempt to touch upon all changes of substance which were made in Schedule 14A, which specifies the information required to be included in the proxy statement, but will only mention a few of the more important changes. The general purpose sought to be achieved in the revision of this schedule was to make the requirements more explicit and less dependent upon administrative interpretation. To this end certain items have been broken up into several items in order to deal more adequately with specific situations.

In certain states dissenting security holders are required to follow a specified statutory procedure in order to perfect their right of appraisal. In order that security holders may be advised as to such procedure the revised schedule calls for a description of the procedure in those cases where one is required to be followed.[13]

Schedule 14A, prior to the revision, called for information as to remuneration only where the election of directors was a matter to be acted upon at the meeting. The new rules call for such information also where a remuneration or pension plan in which directors or officers will participate is to be acted upon or where the stockholders are to be asked to authorize options for directors or officers.[14] The Commission felt that in all of these situations the security holders were entitled to know what rewards the management was already receiving before voting upon the granting of additional benefits.

Publicity of Official's Remuneration

The question of the extent to which the individual remuneration of directors, officers and nominees should be disclosed has always been a difficult one. The proxy rules have proved no exception. The preliminary draft which was sent out for comment called for the individual remuneration of each director or nominee for election as a director who received more than $20,000 a year and each of the five highest-paid officers receiving more than that amount. As was expected, quite a variety of comments and suggestions were made in regard to this requirement. For example, it was suggested that no individual remuneration be called for, or that the $20,000 cut-off be substantially increased, or that the number of officers whose remuneration it called for be reduced. After considering all of the suggestions made, the Commission concluded that the $20,000 cut-off should remain but that it would be appropriate to reduce the number of officers whose individual remuneration is required from the five highest-paid officers to the three highest-paid officers.[15] The remuneration of persons, other than directors, officers, employees or nominees, who received more than $20,000 a year is not required unless they have a material relationship with the issuer or its management.[16]

In recent years managements have, with increasing frequency, submitted to their security holders for approval matters which are not required by statute, charter, by-laws, or other controlling instruments, to be so submitted. It has been our practice to require information as to the submission of such matters under the catch-all item in the previous rules. The revised rules contain a separate item calling for information as to the nature of the matter submitted, the reasons for submitting it to a vote of security holders and the effect of such submission.[17] When the preliminary draft of the rules was circulated for comment, this item was criticized on the ground that stockholders are not interested in the information. It was also said that the item would discourage the practice of submitting such matters to stockholders and that the item goes too far in asking for a statement of the management's intention in the case of a negative vote. The Commission felt, however, that where the management regarded the matter as being of sufficient importance to submit it to security holders for their approval that the management must have fairly well defined reasons for doing so and it seemed proper that these reasons should be conveyed to the security holders. Furthermore, since the management must foresee the possibility of a negative vote in such cases, it would seem reasonable to suppose that the action to be taken by the management in the event of such a vote must have been considered in advance. Where security holders are being asked to vote upon a matter which is normally within the discretion of the management, it seems only fair to inform them as to the consequence of their voting one way or the other on the question.

Several of the items of Schedule 14A, such as those dealing with the authorization or issuance of securities or with mergers and consolidations, call for information as to the reasons for the proposed action, the general effect thereof upon the rights of existing security holders, and the vote needed for approval. It frequently happens that the statement of a proposal, especially one dealing with a change in the issuer's capital structure or organization, does not sufficiently inform the security holder as to the real nature and effect of the proposal. It has been our experience that these become fully apparent only when there is a disclosure of the underlying reasons for the proposed action together with a statement as to the manner in which security holders will be affected by it. While certain persons commenting on these requirements felt that they were somewhat indefinite, we believe they are fairly well understood by most persons and that the information is of sufficient importance to warrant the necessity of interpretation in appropriate cases.

The argument that the vote required with respect to proposed action should not be required because it is not always easily ascertained, is not persuasive. The security holders are entitled to know whether the action they are asked to vote upon requires a simple majority vote or a higher percentage. In most cases the information can be furnished with comparative ease and to the extent that it is difficult to obtain, it should be obtained by those who are in the best position to do so.

4 Rule X-14A-3 (b).
5 Rule X-14A-3 (c).
6 Rule X-14A-4 (a).
7 Rule X-14A-4 (b).
8 Rule X-14A-6 (b).
9 Rule X-14A-6 (d).
10 Rule X-14A-7.
11 Rule X-14A-7 (c).
12 Rule X-14A-8.
13 Item 2.
14 Item 7.
15 Item 7 (b).
16 Item 7 (f).
17 Item 19.

Foreign Investments and Fluctuating Currencies

(Continued from page 18)

ment on repatriating American dollars that have been advanced as a loan to American-owned British companies.

Britain's finances at the present time are in a chaotic condition. Last year, the excess value of imports was 2.7 billion over exports. Sir Stafford Cripps said that Britain does not intend to cheapen the pound as a way of fighting her economic crisis. Britain's hope of liquidating her adverse trade balance and cutting the drain on her gold reserves is to sell more abroad. He said that Britain would lose far more than she would gain by devaluing or cheapening the pound since devaluation would raise the cost of her imports in dollars, therefore further widening the adverse balance. The income from her exports, on the contrary, would be reduced in terms of dollars by cheapening the pound.

It would appear that England's hope of overcoming her dollar crisis and the drain on her gold reserves would be to improve her economic position in the following ways:

(a) Reduce government expenses.

(b) Increase her coal exports to the maximum possible.

(c) Not to try to compete in many articles with mass production countries such as America, but rather to import only such materials as are needed for fine fabricated articles such as machinery, clothing, or any similar goods on which special skills are required, thereby increasing many fold their export value over the import cost of material used in producing the article.

(d) Reduce manufacturing and overhead costs. Most businesses at the present time are grossly overstaffed, but because of the high taxation against which this additional cost is deductible, they look upon this with a tolerant eye. Nevertheless, it contributes in a large measure to the reduction of profits that Britain might obtain on her export shipments if her costs were in line with efficient operation.

Union of South Africa — South Africa is another country which should also be in a very strong position to buy all of her requirements in the world market. Its pound would be acceptable anywhere at its present parity, since she is a gold producing country. But, she too, like her sister nation, Canada, has for several years allocated her entire gold production to the mother country and finds herself in a position of being short of the only currency that is an acceptable medium of exchange throughout the world; i.e., United States dollars. Therefore, she has been compelled to restrict the importations of goods and the exportations of money.

South Africa has a withholding tax of 7% on dividends payable to foreign shareholders of its companies.

When the French franc was devalued, it was feared that the British pound sterling must also be devalued and hence, there was a flight of capital from the British Empire to South Africa, in the expectation that if the British pound were devalued, the South African pound would not suffer to such a large extent. Therefore, the Union of South Africa restricted the importation of such funds unless it could be shown that they were to be deposited there for the purpose of investment and building up the economy of that country.

There has been much speculation in South Africa on what might happen to its pound in the light of the weakened British currency position. It was said that if Britain were to devalue, that reduction in the par value of sterling and the South African pound together would bring about an increase in the sterling price of gold, but such devaluation would not increase the purchasing power of this metal in non-sterling countries and would lead to a general increase in the South African cost structure which their principal industry, mining, could not escape. Generally speaking, the South African pound is not over-valued in terms of other currencies and probably in a free market its value would rise. As a result of this situation, South African commerce must choose between a temporary stoppage of the importation of non-essential goods outside the sterling area, or the collapse of the economic stability of the country.

The following is a very interesting quotation from a recent South African paper. The speaker was Mr. Grant MacKenzie. "We are confronted with a 'showdown,' let there be no mistake about it, between the non-dollar areas and the unreasonable (and impossible) American insistence on payment in dollars, and nothing but dollars, for supplies which every country needs, but which few nations can pay for other than in exports. We must have an end to America doing all in her power to sell her products abroad and yet, at the same time, making it quite impossible for customer nations to pay for those goods, no matter how willing they be to do so."

Commonwealth of Australia — Australia, like most of her sister nations in the British Empire, has foreign exchange control legislation. The proclamation is dated Dec. 18, 1946, when Part 4 of the Banking Act came into operation and the effective foreign exchange control regulations came into operation on Jan. 1, 1947.

These regulations are about the same as those of the mother and sister countries in the British Empire. No money can be taken out unless with the permission of the Foreign Exchange Control Board. However, like most nations, Australia is very hard-pressed for dollar credits to pay for such imports from the United States as is needful to her economy and which she cannot get from the mother country against whom she has a very large favorable trade balance. Monies may be withdrawn by American companies for the payment of dividends and United States dollars will be provided therefor.

Australia, however, has a large withholding tax amounting to six shillings in the pound (or 30%). This is a very severe burden for American companies who have ownership of stock of Australian companies. Although earnings from foreign subsidiaries may be received by way of dividends nearly free of U. S. Federal income tax, the tax on the total amount of corporate income, including dividends from foreign subsidiaries, is offset by a credit allowed for foreign income taxes paid at the source. It happens that where withholding tax is deducted from dividends as in the instance of Australian companies, the provision in the U. S. Federal tax return to offset that deduction for withholding tax is insufficient, and so dividends from that country are received at 70% of their declared amount. See Form 1118, U. S. Treasury Department, ("Form of Taxes Paid or Accrued to a Foreign Country or a Possession of the United States.")

Uruguay—Like most of her sister nations of South America, this country, which is called the "Switzerland of South America," is confronted with an acute shortage of foreign exchange, principally dollars.

This situation has arisen through excessive purchases abroad following the end of the war and it has been stated that much of this purchase was of a non-essential nature rather than of those goods which could have increased the country's productivity and so, its wealth.

Unlike many of the South American republics, order and stability exist, although it is inclined to more extreme social consciousness in the matter of providing social security for its workers. This is one of the few countries in South America where complete ownership of the stock in a foreign corporation may be had. It is also possible to withdraw funds in the form of dividends which will be provided in dollars. It has no exchange control legislation.

Uruguay's chief exports are wool, meat, hides, and cereal grains. The unfavorable balance of trade for 1947 was imports of 189 million versus exports of 125 million.

Uruguay is proud of its record of stability and emulates Switzerland on a small scale as it is a haven for capital from many South American countries, principally Argentina. There is no personal or corporate income tax; however, there is an excess profits tax on profits in excess of 12% of capital which rises steeply, reaching 75% at the 20% level. It is stated that in view of the government's generous attitude on social legislation, it would appear that tax increases may be expected.

Mexico—Since the fiscal economy of our southern negihbor is so closely connected with that of our own, due to our large capital investments there, and the fact that approximately 80% of Mexico's exports are to the United States, let us briefly examine her condition.

The weak spot in Mexico's economy today is her shrinking dollar reserves. During the War years, she had accumulated gold and silver reserves to a high point of about $450 million, but today it is believed that these reserves are approximately $137 million (Bankers Trust Co., March 1948).

This downward trend in Mexico's trade balance and foreign exchange position is caused by its large demand for all kinds of products which she normally imported from the United States and which became available after the war.

At the present time, there is no exchange control as such in Mexico, but the restrictive credit policy of the Bank of Mexico, together with the present restriction of imports of luxury items by the Mexican Government has done much to stop the outflow of dollars. Even now, any one having pesos can go to any bank and buy any quantity of dollars for a remittance abroad. Likewise, one can buy any quantity of gold or silver for safe-keeping in Mexico. This is probably one of the few countries in the world where this free situation exists. Furthermore, Mexico's borders are too large to police to have them properly enforce exchange control.

It is felt that Mexico has a good chance of overcoming her unfavorable trade balance since the greater share of her exports go to the United States and thus she is in a position to acquire dollars.

The following are the *invisible* sources of income to Mexico. She has an estimated income from tourists trade of about $80 million a year. It is also expected that the Export-Import and World Bank will provide a loan of $25 million for electric power expansion.

Among the intangible items that are favorable to her is the possible benefit from the Marshall Plan, and if she would allow foreign capital to aid her in oil production, her exchange difficulties would probably be at an end. It is thought that if Mexico should get into a very difficult exchange situation, she might get financial aid from the United States, since it would be against our interests to permit financial chaos in that country.

Venezuela—This is one of the few countries in the world where there is a "free-wheeling" economy. Venezuela has a favorable export balance represented by black gold (oil). American firms can have complete ownership of their interest there and withdraw not only dividends but capital at will. In fact, at the present time, the United States dollar is at a discount in Venezuela!!

Some Consequences of Monetary Devaluation

At this point, it might not be amiss to inquire into the world monetary condition and see how we came to be in the situation we now find ourselves.

If nations at war depended on sound money backed by gold, there would not be enough of the metal in any country to provide the sinews of war for any long period. Therefore, the following steps were learned in World War I to provide the necessary funds to finance the long continued struggle of World War II. We learned how to monetize the public debt (which simply means that we turn this debt into money). It was accomplished as follows: The government issued bonds which it did not sell directly to the people but to the banks, and then at the same time creates and provides the money the bond calls for by increasing the necessary currency via the printing press.

The next step that was necessary was to get possession of all the gold in the country, and make it criminal for any one to hold that metal. Thus the money is only indirectly tied to gold. The bond then only represents the promise of the government to pay in money which it issued to secure that bond. After World War I, nearly all countries went back to the gold standard. Even Germany was provided with gold after she had repudiated her paper money, so that she would have gold on which to base her new currency. In World War II, this process of inflation has gone so far that it will doubtless be a long time before production will have increased sufficiently to create new wealth to permit countries to return to a sound money standard.

There was a great deal more to the latest devaluation of the French franc than meets the eye. It was not the mere abasement of its present currency to a still lower value in terms of our dollar but rather, it was the creation of a new monetary unit which went by the same name (i.e., the franc) and imposed the further condition that commitments made prior to the devaluation must be settled on the basis of the parity of the preceding franc.

This devaluation, which the International Monetary Fund pleaded with France not to do because it was feared that it would wreck the artificial parities of monies, brings in its wake this distrust of all managed currencies. It has caused the almost complete stoppage of forward selling of foreign exchange from European countries, since no one can be sure but that once having sold any European currency for future delivery, if devaluation of that currency takes place, it might be subject to the same manipulation; i.e., the creation of a new monetary unit. Hence, there can be no hedge in selling expected remittances from abroad in order to fix the exchange return at which the dollars may ultimately be received. Obviously this uncertainty about the future value of currencies acts as a strong deterrent to private investment of American capital to assist in European recovery.

The result of this moral downfall is such that in order to protect themselves, citizens of countries that still are permitted to hold gold will not exchange their hoards for any kind of paper money—not even paper dollars.

Announces Payments on Mexican Bonds

The International Committee of Bankers on Mexico announced on May 6, by a published notice, a distribution to holders of bonds of the Mexican Government and of the National Railways of Mexico, deposited under the Agreement dated June 16, 1922, amended in 1925, of a substantial part of the funds remaining in the Committee's hands. The amount of the distribution is $4,702,028.35 and it is allocated pursuant to the directions of the Court to specific cash warrants attached to each of 36 separate issues deposited under the above mentioned Agreement dated June 16, 1922 between the Mexican Government and the International Committee.

The present distribution is a step in the conclusion of the Committee's work begun over 25 years ago, at which time the International Committee, under the active leadership of the late Thomas W. Lamont, initiated steps to secure a resumption of interest payments on the debt of the Mexican Government and the National Railways of Mexico, which had been in default since the 1914 revolution in Mexico. During the five years in which payments under such Agreement were to have been made, the Mexican Government remitted some $43,000,000 which sum was increased, by interest earnings and miscellaneous receipts, to about $45,000,000. During such years about $33,000,000 was turned over to paying agents for distribution to bondholders. The sum remaining was insufficient to pay a full year's interest on all the deposited bonds at the prescribed rates and, after payments ceased at the close of 1927, and after various unsuccessful attempts to secure a resumption of payments, the Committee sought judicial instructions as to the distribution of the remaining funds. This action was begun by the Committee in 1932 but because of protracted litigation (all concluded favorably to the Committee) no distribution was possible until the present time.

After the cessation of payments by Mexico under the 1922-1925 Agreements, two further agreements relating to the payment of Mexican debt have been made under which payments on a modified scale are to be made by the Mexican Government's fiscal agent. One, executed in 1942, relates to the Mexican Government Direct Debt and payments under such debt agreement are being made to bondholders who have accepted its terms. The other, with respect to the National Railways of Mexico Debt, was executed in 1946 and this Agreement has recently been submitted by the Mexican Government to the bondholders for their acceptance. Under both such Agreements those bondholders who accept the provisions of the agreement assign to the Mexican Government their interest in the funds held by the 1922 Committee and the share of the funds to be distributed which relates to bonds assenting under the two recent agreements will be paid to the Mexican Government.

The Guaranty Trust Company of New York has been named by the Committee as its distributing agent in New York and London. Arrangements have been made with the Banque de Paris et des Pays-Bas in France, Holland and Belgium and with the Credit Suisse in Switzerland to accept for collection, for the account of holders, cash warrants on which distribution is being made.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

The government securities markets which have been saying yes to a certificate rate of 1¼% do not seem to be quite so sure now that the rate will be upped in the very near future. . . . There has been a difference of opinion between the money markets and the Treasury over what would happen to the certificate rate, with the Government inclined to indicate that the taking of a higher rate (for one year maturities) for granted could be indulging in speculation. . . . The less positive position of the money markets on a higher certificate rate has been expressed by a growing interest in the intermediate and longer maturities of the bank eligibles. . . .

BACKTRACKING

Investors and dealers in government securities in many instances had taken to the sidelines to await the announcement on the June financing and many of them are still there. However, remarks made here and there by certain of the money managers along with rumors that have been appearing in the market, have shaken some of the stalwarts from their sideline positions back into the bond market, with purchases being made in the 1952 maturities, as well as the 1956 and 1967 bank-eligibles. . . . Volume has not been too heavy, but it has been sizable enough to show a pick-up from the recent level of activity. . . .

The main reason given for the increased interest in the more distant maturities of eligibles is that if the certificate rate is to remain at 1⅛%, the higher income bank obligations will move up in price so let's make some commitments before we have to pay more for these securities. . . . On the other hand, it is being pointed out that the rise that might take place in Treasuries if the certificate rate should continue at 1⅛% is not expected to be very sizable or too sharp. . . .

LOAN TREND

The loan trend is being watched very closely by those in the money markets who feel that the certificate rate may not be increased in the June financing. It is believed that if the loan curve does not turn up, there are very good chances that the 1⅛% rate will be kept by the Treasury. . . . It is being noted nevertheless that the Central Banks are leaning more and more towards slightly higher money rates as an inflation control than are certain of the other money managers and it could be that the Federal authorities will win out in this one. . . .

MARKET OPERATIONS

Greater uncertainty has been put into the money markets by the old method of "Open Mouth Operations" but in this instance it has resulted in bringing some buying into government securities instead of lessening the demand as has been the usual procedure in the past. . . . Sellers of the 1949, 1950 and 1951's, who had gone largely into Treasury bills are now taking on some of the June and December 2s of 1952/54, the 2¼s of 1956/59 and the 2½s due Sept. 15, 1967/72. . . . These purchases do represent a certain amount of boldness since the trend of commitments had been principally into the shortest Treasury obligations, there to remain until the announcement was made on the certificate rate. . . .

Although the money markets are far from being in agreement now on what will happen to the certificate, the question is being brought up in some quarters of the financial district as to whether continuation of the 1⅛% certificate might not have an inflationary effect, after all the preparations the money markets have made for a 1¼% rate. . . . It is being pointed out that with the maintenance of the present certificate rate many holders of maturing June 1 certificates as well as owners of the June 15 1¾% might be inclined to take cash instead of a 1⅛% obligation that would be offered in exchange for them. . . .

CAUSE AND EFFECT

The Treasury has ample working balances but evidently they will be needed for other government expenditures, aside from debt retirement. . . . Therefore, it might not be to the liking of the monetary authorities to have a sizable amount of the June maturities presented for redemption because the rate of the issue offered in place of them was not high enough. . . . Likewise, the funds that would be obtained from the cash repayment of these June maturities would no doubt go largely into outstanding higher income government obligations. . . .

An increase in debt service should not be made unless the results obtained from such action more than compensates for this development. . . . However, it could be at this time that a slightly higher certificate rate, which would bring about a more complete exchange of maturing obligations would be more advantageous than keeping a rate that might cause a heavy turn-in of the due or callable issues. . . .

NOTES

Insurance companies have liquidated a few more of the tap issues, with the proceeds evidently going into corporates and mortgages. . . . Savings banks have made some purchases of both the eligibles and the 2¼s due 1959/62, as well as recent new offerings of corporate bonds. Although the money markets are deeply engrossed in arguing over what is going to happen to the certificate rate, some hold that an "odd maturity" of certificates might be offered by the Treasury. They contend it could be done without upsetting the market.

W. R. Kaelin, Director

Henri Sadacca, President of Noma Electric Corporation, announces that William R. Kaelin has been elected to the corporation's board of directors. Mr. Kaelin is a partner of the investment banking firm of Baker, Weeks & Harden, members of the New York Stock Exchange.

With Newburger, Loeb

Newburger, Loeb & Co., members of the New York Stock Exchange and other Exchanges, announce that Joseph LaBarbera, Registered Representative, has joined their organization at the main office at 15 Broad Street, New York City.

Bank Management in the Coming Depression

(Continued from first page)

cessation of hostilities. Whether they will be any more right this time than they were then remains to be seen.

But perhaps, after all, it isn't quite fair to place all the government economists in one group because judging from recent utterances, it seems difficult to know just what our government does fear in this connection. The President's Council of Economic Advisers in their report for the first quarter of the year seemed to fear inflation so much that they recommended enactment of new taxes and credit restrictions. They also called for increased saving, and asked Congress to give the President stand-by authority for price, wage and direct manpower controls and for such allocations, priorities and rationing as he might later deem necessary. A few days later Mr. Marriner Eccles went before the Joint Committee on the Economic Report and asked for the right to increase bank reserves.

Credit Policy Confusion

But in spite of these recommendations, one cannot be certain where the President and the Treasury Department do stand on this question of inflation. In commenting on Mr. Eccles' request to Congress, President Truman in a news conference said that Mr. Eccles spoke only for himself. Then, to confuse the matter still further, there was an item in the press last week quoting a high official of the Treasury Department to the effect that instead of the need of the year calling for restriction of bank credit it was altogether likely that the defense program would call for additional bank loans and some expansion of bank credit. It would appear that those in top control of our government, no matter how much they fear inflation, do not want to put any restrictions into effect that might conceivably stop business expansion, at least before election.

I have taken for my subject "Some Banking Problems on the Crest of a Boom." In view of this difference of opinion as to whether or not we are on the top of a boom, it becomes necessary before discussing the problems of bank management to set forth the reasons why one should hold the opinion that we are on top of a boom and while we may not begin to slide off from it right away there is not too much danger that the boom will go higher.

Pro-Boom Reasoning

To start the discussion, let us first set forth the reasons why some people fear that prices are likely to go still higher and that the danger of inflation is still with us. The inflationary school of forecasters base their predictions primarily upon three things. First, the recent Federal tax reduction of approximately $4.5 billion. They state that this reduction will cause a very large increase in retail buying inasmuch as the larger part of it goes to those with small incomes. They further insist that it is too much to expect any large portion of such tax reduction to be saved but that the most of it will be spent for consumers goods. Now inasmuch as there are no surplus consumers goods at the moment it is argued that this spending will tend to push prices higher.

The second reason for fearing further inflation is the enactment of ERP, the so-called Marshall Plan. This is going to call for giving away our products during the coming year in an amount approximately equal to $5.5 billion. The inflationists further state that we do not have any such surplus of goods to give away without restricting our own consumption and as it is not likely that rationing and controls will be established to bring this about, it will have to come through higher prices.

Finally, the third reason advanced is the rearmament program which already is calling for an additional $3 billion for the coming year and may well call for more later on. One must not minimize the inflationary effect of a large scale expansion in expenditures for national defense. Such expenditures so far as the price level is concerned have a two-fold effect. In the first place they add to the income stream of our people just the same as other expenditures. But inasmuch as the goods which are produced by such expenditures are war goods they are not available for purchase later to use up the money put out for their production. In other words, armament expenditures increase purchasing power but do not increase consumer goods.

Without at all attempting to deny that tax reduction, increased armament outlays and the European Recovery Program all have their inflationary possibilities, my position at the moment is that provided the sums now mentioned for these items are not materially increased, it is very easy to overestimate their importance in this connection. An additional defense outlay of $3 billion, a tax cut of $4.5 billion, after all represents only a little more than 3% of the total value of goods and services produced last year. Moreover, even with the European Aid Recovery Program there is good reason for thinking that the total volume of our exports for the next 12 months will be smaller than they were during the past year. The difference between exports and imports last year was approximately $9 billion. This difference might well be reduced by as much as $2 billion for the current year.

But I wish to repeat again that the danger of inflation is not lightly to be pushed aside if one admits that the total demand for our products is to be increased appreciably during the coming year. Our economic background does not have any slack to be taken up to meet much additional demand as it did in 1940-41 when nearly 7 million men were out of work and there was also a large amount of unused plant capacity. Today we have full employment and there are shortages of numerous strategic materials such as steel, oil, metals and transportation equipment of most kinds. No overall increased demand can be placed on top of such an economic situation without disturbing the price level, and let us not forget it.

The Most Compelling Force

To me, the most compelling argument for fearing further inflation is that the Federal budget in the fiscal year beginning June 1948, will become unbalanced because of the tax reduction and the increased expenditures for relief and armament. If this deficit should be large enough to compel the Treasury to resort to borrowing from the banking system and thereby increase our money supply, the forces making for inflation would again be with us. About this there can be no doubt. This, too, must be remembered.

But is there much likelihood, barring a war, that the Treasury will be compelled to borrow from the banks even if it does run a sizable deficit? It is frequently overlooked that under present accounting procedure the Federal Treasury can show a rather large deficit and at the same time the actual cash which it receives can be in excess of the cash which it disburses. And so far as inflationary results of Treasury operations are concerned, it is the difference between net cash operating income and net cash operating outgo of the Treasury which is important.

The reason why under present accounting practices the Treasury can show a deficit and still have a net cash operating surplus is found in its intra-governmental transactions such as transfers to and from the various trust accounts, social security and Federal old age, and to the non-cash payment of interest on savings bonds and Treasury bills.

For example, interest on the public debt in fiscal 1947 represented a budget expenditure of $4,958,000,000, but actual cash disbursed on this item was only $3,820,000,000. Interest received by trust accounts involves no cash, nor do transfers to trust accounts for other purposes as required by law. They are merely bookkeeping items but both are considered budget expenditures. Of total receipts by trust accounts amounting to $6,244,000,000 in the same fiscal year, only $3,712,000,000 involved cash; while out of total disbursements by trust accounts reported as $7,347,000,000, only $3,270,000,000 was cash. Investments are counted as expenditures.

This difference between cash and budget figures is shown in the fiscal year 1946 when a budget deficit of $20,676,000,000 was reported as compared with a net cash operating outgo of only $17,899,000,000. In the fiscal year 1947 the difference was on the other side of the ledger with a budget surplus of only $754,000,000, but the Treasury had a net cash operating income of $6,658,000,000.

It is the amount of cash operating income and cash borrowing against cash operating outgo and cash repayment of debt that is important when considering the inflationary aspects of Treasury financing and not the intra-governmental bookkeeping entries. It seems, therefore, that barring a war and with any appreciable sales of E, F and G bonds over redemptions that it is hardly likely the Treasury's cash expenditures will equal its cash income. Therefore, the operations of the Treasury even though no debt is retired are not likely to be inflationary during the coming year.

Without denying that there are still plenty of inflationary forces working in our economic system, if one looks closely he can also find powerful offsetting forces working in the direction of stability or even lower prices and deflation. But it probably would be a mistake to expect these forces to show their full effect before the first Tuesday following the first Monday of November, for it can be taken for granted that no party wants to take the responsibility for anything which might cause bad business during the next few months no matter how sound the measures might be from a long-term policy. It is for this reason that I personally expect, and the stock market apparently agrees with me, that the boom may go a little higher before it reaches its peak.

However, the underlying forces working to stop inflation are inherent in the present economic situation and can be seen if one looks closely enough. First and foremost of these forces is the increase in production which is taking place. There is no antidote to inflation like increased production. And this country has not begun to see in increased production the full effects of the plant expansion which has taken place since the close of the war. Steel is still in such scarce supply that there is a danger that it is obstructing our view of what is taking place in other lines of production.

One of the basic reasons why steel is in such short supply is also the basic reason for our high level of business activity; namely, the huge capital expansion program which has taken place. It

is this postwar expansion in plant and equipment more than the demand caused by filling up the pipelines with consumer goods that is responsible for the boom which we are now undergoing. Although it is not generally recognized, it is not the fluctuation in the demand for consumer goods that is the principal cause for the ups and downs in business activity. Rather, it is the wide fluctuation in the amount of money spent in capital expansion.

The Capital Expansion Program

If capital expansion by business is such a dominant factor in determining the level of business activity, perhaps if we examine the state of our present capital expansion program, its progress and its prospects and how far it is completed, we will get some idea of how long the present boom will continue and whether it will go any higher.

A short time ago the McGraw-Hill Publishing Company made a rather extensive survey of this whole question of postwar expansion in the field of plant construction and equipment purchase. It found that by the end of 1947, American manufacturing companies had completed on the whole 64% of their estimated postwar expansion programs. By the end of 1948, however, these companies expect to have completed 85% of this program. *There is no doubt, therefore, that for the rest of this year business spending on new plant and equipment will continue at a high level and there seems little reason at all to expect a recession of any magnitude for the rest of this year.*

Now with 85% of the postwar expansion program completed by 1948, is it likely that capital expenditures will continue to be as high in 1949 and 1950 as they were in 1947 and 1948? It certainly does not seem reasonable so to expect. In fact, on the basis of the McGraw-Hill survey, it was found that the largest single group among our manufacturing companies, 36% of them, had made no plans as yet regarding capital expenditures for 1949. The next largest group, 28%, expected to spend less in 1949 than in 1948. Nineteen per cent expected to spend about the same amount and only 17% expected to spend more. The findings of this survey, of course, must not be interpreted to mean that new expenditures for plant and capital will come to an end after 1948 and 1949. There is always year-by-year replacement of equipment which is worn out or made obsolete by new discovery. But the results of the McGraw-Hill survey only prove what common sense indicates—that it is not possible for this nation or any nation to continue for long the building of plant and equipment at the same rate which it has during the past three years.

Let us turn our attention to an examination of what is likely to happen to the output of consumers goods when this new plant and equipment are once in full production. It is estimated that the productive capacity of our American manufacturing industries, when this postwar expansion is completed, will be on the whole about 52% greater than it was before the beginning of the war. Almost a third of our manufacturing companies will have doubled or more than doubled their prewar productive output. Another 17% will have a capacity from 50 to 99% greater. Another 29% will have added from 5 to 49% to their capacity, while only 23% of all the manufacturing companies of the country are found not to have added to their plant and equipment since the close of the war.

It is frequently overlooked that capital expansion when it is going on, at least temporarily, makes for higher prices. It is inflationary because it makes a demand for goods and increased payrolls and incomes before additional consumer goods come on the market. While the men are building factories they are not producing consumer goods to eat and wear. But eventually, after the plants are completed, an increased flow of goods comes out of these plants and becomes available for consumers. In this fact, it seems to me, lies the crux of the price problem for the next year or two. If the demand for labor and materials to build new plants and equipment declines and as the output from the plants which have been completed increases, we have two forces working toward lower prices.

Increased Output Ahead

Is it likely that we can continue to absorb an increased output of goods of over 50% at present prices, not to speak of absorbing such an increased output at even higher prices? It may well turn out that the factor which was responsible as much as any other single one in causing the boom and high prices of the past few years will itself produce the cause for the decline in the prices which I feel may well lie ahead. Increased output, may I repeat, is the greatest remedy for high prices and inflation. From present indications it seems as certain as night follows day that we are going to get this increased output in the years ahead.

But I know that some of you are saying labor costs are so high that it is impossible for prices ever to come down. Moreover it begins to look as though we might have a third round of wage increases now in the making. But even if we do, a third round of wage increases of any considerable magnitude may in the long run prove deflationary rather than inflationary. Here is a factor that is almost always overlooked. Increased wages are not always inflationary although they almost always increase costs. And I do not forget that costs are the floor of prices.

What we have forgotten is that we have been living in a seller's market so long where it has been possible to pass on to consumers almost any conceivable increase in costs that in a buyer's market it may be impossible to do so. In a buyer's market, where goods are in ample supply, increased wage costs usually have to come out of profits. If there are no profit margins for them to come out of and then if prices are marked up the net result is to reduce sales, increase unemployment, and the end result is deflationary instead of inflationary. While, of course, in the long run prices have to cover costs, every businessman knows that his very existence is a never ending battle to reduce costs and it is a vicious oversimplification of the effects of wage increases merely to state that they are inflationary and can be passed along to consumers at higher prices.

Already in certain lines of goods one can see evidences that supply has caught up with demand in such a way as to produce price weaknesses in commodities ranging from nylon stockings to automobile tires and from radios to agricultural products. Inventories even allowing for price increases in most lines, are now higher than they were in prewar days. Given normal harvests, keep the rearmament program within reason and the European relief program no higher than originally contemplated when the Marshall Plan was enacted, and it seems to me that all the signs point that we are practically over the hump of high prices and that the boom will be running out in 1949. Food prices are almost certain to decline during the coming year, barring a world crop failure. The drop in food prices always exerts a downward pressure on the whole price level. While I do not want to be understood as forecasting any drastic price decline or any severe business recession, I do want strongly to urge you not to conduct your institutions in the days ahead with an expectation of further material increases in prices or for a long continuation of the present business boom. We are approaching the end of that road, in my opinion, and now is the time to see whether your brakes are in order.

Impact on Bank Management

I have spent so much time discussing the outlook for business because you don't manage your banks in a vacuum; you manage them in a business environment. It is vitally important, therefore, for you to understand what that environment is likely to be in the days ahead. As a practical banker and I spend a good deal of my time helping to manage a bank, it seems to me that our management problems can be divided into three headings: (1) how to handle our bond account; (2) what policy we should pursue in making commercial loans; and (3) how much we can trust present market prices in making mortgage loans.

A discussion of each one of these problems would be sufficient for a lecture. I can only touch on the high lights of each of them. In handling your bond account you have two choices: shall you purchase governments or corporates? In my opinion, and I am quite dogmatic about this, the differential in yields between high grade corporate bonds and government bonds of the same maturity is not sufficient to justify the purchase of anything but governments. There may be an exception from time to time but the exceptions are not many.

The next question with which you are faced is the one of maturities. Shall you buy longs or shorts. I realize there are some who would have you believe that the government will always control interest rates at about present levels and, therefore, the present prices of bonds are safe. These people urge you to buy for the sake of income, which I know most of you need so badly, the longest government bonds which are available. I would state that those who thought a year ago that the Federal Reserve would support the bond prices then existing were handed on Christmas Eve of last year a present that materially reduced the earnings of a good many banks if they wrote their government bonds down to market at year end. Perhaps the Federal Reserve will be able to continue to support government bonds at present prices: they have been buying them continuously ever since November of last year for that purpose and to date have accumulated an amount in excess of $6 billion. At the moment if I were compelled to guess, I would state that there is every indication that they will be able to do so in the discernible future. I want also to state in this connection that I do not think banks should be managed on a guesswork basis and that it is dubious bank management at any time to invest any considerable portion of demand deposits in long-term bonds, even governments. Certainly at a time like this, it is downright speculation, and to make it worse, it is speculating on political action. For myself, I would have no part in it.

Let us now turn our attention to our commercial loan portfolio. As you know, it has had one of the most rapid increases in bank experience, although during the last several months loans have begun to decline. I am not one who views this increase with alarm nor do I think it has been the cause of the price rise which we have experienced. The cause and effect have been just the other way around. It has been as a result of high prices that businessmen have had to borrow larger sums of money to conduct the same physical volume of business. Probably it is too much to expect bank loans to expand as rapidly as they have during the past two years without some of them later going sour. Moreover, I am not one who views with great satisfaction commercial banks going into the so-called term loan business. The life insurance companies have been making such loans during the last few years. I think it altogether likely that we will learn something from this experience for which we may have to pay rather dearly. To base a loan on earning power five or even ten years ahead calls for valuation of management—and in the majority of cases that is what earning power depends upon—further ahead than I think any of us has the ability to judge. In this connection, I want to caution you also to remember in making your commercial loans that the management of many of the businesses that you are now financing is in new and untried hands. We have been living in a decade of rising prices and relatively easy profits. Almost any management can succeed in such an environment. But during a decade a good many business executives die and others replace them. These new executives are going to be compelled to make good in the decade ahead in a different business environment than that existing during the past ten years. Already Dun & Bradstreet reports that business failures are on the increase.

May I urge you also to watch your inventory loans. Loans based on the present prices of agricultural products or any prices above those guaranteed by the government should be scrutinized most carefully. Construction mortgage loans to speculative builders, the type of loan in the East which is growing too rapidly, contains dangers too obvious to need mentioning. But on the whole I think one does not need to be over-optimistic to state that commercial bank loans, by and large, are in as sound a condition today as they ever have been after an extended period of business prosperity. The element of weakness found in loans based on stock market speculation and on second grade bonds is probably as low as it has ever been in our country's history.

You must also remember in passing on your commercial loans that the present artificial low interest rates at which we are lending our money have left little margin for risk-taking. In view of this fact, it is doubtful if one is justified under present conditions in investing any of his funds whether in loans, bonds or mortgages unless they are exceptionally well secured. With interest rates so low and the costs of operating a bank so high only a few loans need go bad before the year's dividends are destroyed. At the present time, in my opinion, there is not sufficient difference in the interest rate between gilt edge investments and second class risks to justify us in investing any of our funds in anything but assets of the highest quality. If this means that the marginal borrower is short off from bank credit, then it is a penalty that is paid for the artificially cheap interest rates now prevailing and one that bankers should not be asked to remedy. We cannot afford to take the risk. The premium that we get for it is too low.

Probably the greatest danger in our credit structure today is to be found in the field of real estate mortgage loans. I have made no study of farm mortgage loans and so am not going to talk about them. I understand, however, that the price of agricultural real estate has at last broken through its top of 1919-1920 and if loans are being based on such prices, then one should not be surprised later if some losses result.

But however much agricultural real estate has increased in price over its 1919-1920 high, the price of our urban real estate has increased even more. I think it no exaggeration at all to state that all the old evils, and some new ones, which existed after the first World War in financing real estate are present with us today. One does not have to look very closely to find a good deal of evidence on all sides that lending institutions of all kinds are showing a willingness to over-mortgage both the dwelling and the buyer. Never was mortgage money so plentiful nor was the competition of lenders to get mortgage loans so keen as it has been during the past three years. I am glad to state that during the last several months the competition has let up a little. Hard as it seems to believe, premiums of 4 and 5% were paid last year to secure 4% mortgage loans that were guaranteed by the Federal Housing Administration, and premiums up to 2 and even 3% were paid to secure conventional mortgage loans bearing an interest rate of 4½%.

Moreover, in all too many cases mortgage loans were made in amounts up to 66 2/3% of the selling prices of the properties securing them and in some instances up to 75 and even 80% of market prices. I am not referring to VA or FHA loans, but to uninsured loans. Certainly one should not be surprised if some serious trouble later ensues in this field of lending.

Realty Going Into Weaker Hands

The March Federal Reserve Bulletin stated that mortgage indebtedness on residences increased during the past two years by an amount greater than total new construction expenditures on such housing. The ownership of urban real estate is apparently getting into weaker hands and the owner's equity is getting smaller and smaller as the properties change hands. I know I need not point out to you what has happened to the price of real estate. In my own loaning experience, I have seen houses that were built in the 30's and sold for $6,000 now sell for as high as $13,000 and even $14,000. Only recently I had a loan paid off on a house that sold new in 1939 for $11,500, and on which I had placed a $7,000 mortgage, resell for $25,000 and on which a $15,000 mortgage was placed. The mortgage lending field today certainly is fraught with danger and it is one that bids fair, yes almost certain, to cause the government a good deal of trouble on account of its guarantees. As bankers we would do well to insist that full loans based upon present day values either be declined or else guaranteed by some government agency.

In conclusion, I must warn you that forecasting business conditions today is subject to the same limitations as forecasting the weather. As someone said about the decisions of the Supreme Court a few years ago, "They are good for this day and train only." The affairs of the world are in such a state of flux that it may well be that before I get back to Wilmington I will feel compelled to rewrite this speech and to arrive at totally different conclusions. All I have tried to do is to base my reasoning on the known facts as they exist today and arrive at conclusions from such facts. Of course, should the government embark upon a rearmament program that calls for an annual expenditure of from $10 to $20 billion more than it is now spending, then all the inflationary effects of war financing will be with us. But even if you knew that this was to take place, you would be unwise, in my opinion, to operate your institutions much differently than I have suggested because it is idle to expect that we would have a free economy with such expenditures for armaments. All the controls in existence during the past war would again be put in operation, and even some new ones might be devised. This is no time to throw away the compass and sail out to sea. Caution rather dictates that you keep close to shore.

As We See It

(Continued from first page)

not unlikely that many have more or less forgotten the emphasis the President placed upon it in addressing Congress only a relatively short time ago. His remarks formed the basis for demands for legislation which would vest in him vast powers to fix prices and control much else in the economy — as if such steps as these, even if they were to succeed in attaining their objectives, could in the nature of the case do more at most than temper, or possibly eliminate, some of the symptoms of the disease complained of! But the point here is that a tragic finger was pointed at the spectre of inflation, which at that time appeared to be occupying much of the President's attention.

All Want More Power

The Federal Reserve authorities rushed to the scene with suggestions of power, which they thought they ought to have in order to do their part in stemming this tide. The Treasury with its debt retirement program assured the public it would do its part in checking the progress of this disease. The Treasury, the Reserve and State banking authorities joined in a statement designed apparently to discourage further expansion in bank loans. Owing its existence, doubtless, to all this the American Bankers Association put into motion a campaign to persuade their members voluntarily to restrain themselves in the future in extending credit to the general public. Apparently more or less independent of all this noise, there was a fairly sharp break in the prices of a number of markets where speculation had without doubt run riot for a good while. Such recessions have resulted in a minor decline in the over-all average of wholesale prices.

But word comes from Washington now that some of the powers that be are wondering whether all this anti-inflation talk — and whatever action there may have been — has not been overdone! Plans now on foot, so say these wiseacres, may well require considerable further increase in the volume of bank loans, and apparently the trend in such loans at the moment at least is in a downward direction. How general this turnabout in official thinking on the subject of bank credit is we have no way of knowing, but we confess to a suspicion that it is not confined to a few doubting Thomases in the Administration. At any rate, such a change, in the current circumstances, appears natural enough if, indeed, not inevitable.

More Armament Expenditures

It is quite impossible to say with any great degree of assurance precisely what the Administration wants from Congress as regards rearmament and related matters. It has made one or two suggestions which would add quite appreciably to public expenditures, and it is all but universally believed that these suggestions represented less what the President wanted or hoped ultimately to get than what he thought it expedient to ask for at the moment. At any rate, the campaign of terror, if it may be so termed, which has been under way for a long while past about the next war and the likelihood of its outbreak at almost any moment, has created a state of mind among the people of this country which apparently assures much larger military expenditures than the President has as yet ventured to request. He could, of course, veto added appropriations—and assume the political risk involved therein—but no action of this sort is likely from all present appearances to keep military outlays even nearly within the limits of previous budgetary expectations.

Just when all this will translate itself into actual Federal expenditures is a question, the answer to which virtually all industry wishes it knew. What is certain is that sooner or later it will add to public expenditures, and critically add to the burden of industry now chiefly concerned with its normal function of supplying the public with what it wants in its every day civil life. Not so certain, but apparently growing in probability with each passing day, is the outlook for larger outlays for aid, civil and quite possibly military, to a very considerable assortment of foreign peoples. This, too, obviously would add to the tasks of an already overburdened industry. Unless all such expenditures were taken from the people in taxes, they would add to the current "purchasing power" of consumers and thus to the upward pressure on prices — since the income derived from the production of these goods would not have any counterpart in goods available for purchase. If their production merely replaced the output of civilian goods, it would — in the absence of corresponding taxation — reduce the volume of consumers goods coming on the market without curtailing "disposable" income available for purchase of such goods. The likelihood of such management of these programs that inflationary influences would be avoided is, if one is to judge from experience, not very great.

More Fuel in Prospect

But this is not the full story. Programs here at home are being sponsored which would tend very strongly in the same general direction. There is the so-called Taft-Ellender-Wagner bill recently approved by the Senate and more recently described by the President as "wonderful." It would "let down the bars" to over-extension of credit to all sorts of home builders, and even go into the field of "yield insurance"—all for the avowed purpose of encouraging expenditures in the home construction field despite outrageous costs, doubtful ability of many would-be buyers to meet such obligations in the future and all the rest of which previous periods of a similar sort give us ample warning. It may be taken for granted that private investors—certainly those who have cut their eye-teeth — are not going to provide vast quantities of capital for such purposes without government guarantees of one sort or another. But, however it may be done or whosoever is to do it, the banks would be very likely at one stage or another to be called on to provide the funds.

And so the story might be drawn out almost indefinitely. Small wonder there are those in Washington who wonder whether the banks should be discouraged from further lending.

What About Money and Credit?

(Continued from page 8)

essential production, for speculation, and for consumption purposes.

Measures for Monetary Restraint

There is no simple or single way of accomplishing this task. It will have to be accomplished in a combination of ways—by general credit controls and in particular areas by selective controls. Moreover, credit controls alone can not do the entire job. Banking and monetary policies will need to supplement fiscal and other national policies—including, if necessary, direct economic controls. I speak, however, only of the factors lying in the field of money and credit; they are not the most potent, but they are essential.

The responsibility of the Federal Reserve System in this situation is to conserve the nation's credit resources in the interest of the longer-run stability of our democratic capitalism. In view of this responsibility, the System will be obliged to use its influence to restrain unnecessary credit expansion. Its capacity to fulfill this responsibility is necessarily circumscribed, in part as a result of statutory authority, and in part as a result of the nature of our banking system.

Applicability of Interest Rate Policy

Taking these limitations into account, there are two lines of general credit policy open to the System. The first of these alternatives, which is entirely within the System's existing statutory authority, is to permit a general rise in the level of interest rates. Such a program would have a three-fold purpose: first, to strengthen the incentive for savings; second, to meet increased financing needs; and, third, to discourage non-essential borrowing. It is a program that would conform in major respects to the traditional precepts of "orthodox" finance.

Yet it is a program that should not be accepted without careful consideration; for the effect of rising interest rates varies and may be the opposite at one time of what it is at another. Thus the initial effect of rising rates may be to encourage economic activity and they may not become restrictive till an alarmingly high level has been reached. They are first taken as harbingers of rising prices and active business. Under inflationary conditions, especially, rising rates would put businesses under a strong inducement to undertake expansion programs before rates and costs went still higher; and they would hardly become deterrent until they had become extremely high. They would impel consumers to avoid higher prices in the future by making credit purchases in the present. They would draw out savings now held in bank deposits or in savings bonds and add them to the volume of credit. But they would not discourage government borrowing, for the government borrows not because rates are low, but because appropriations and tax legislation make borrowing necessary.

Still further aspects of a policy of higher interest rate levels are the primary effects of such a policy upon the market prices of government bonds and the secondary effects of lower price levels for government bonds upon the soundness and the functioning of financial institutions. It is one thing to contemplate higher interest rates on a public debt of $25 billion, such as we had at the end of World War I; it is another thing to contemplate higher interest rates when public debt amounts to $253 billion and exceeds the total of all private and other debt by nearly 50%. We have also to keep in mind that marketable public debt alone amounts to $162 billion, or approximately 75% more than the value of all listed stocks and non-government bonds.

The additional cost to the government of a higher interest rate program is another matter requiring thoughtful consideration, since a maturing debt of $50 billion this year and $100 billion in five years would have to be refunded at higher rates. This aspect of the interest rate problem has a further implication. The Treasury might become a borrower at the higher interest levels. This would raise the knotty question of equity with regard to present holders of government securities. The program of financing participation in World War II, in contrast to that of World War I, was geared to avoidance of this problem by adherence to a stable pattern and level of interest rates.

These considerations with respect to the general level of interest rates do not mean that the existing structure of interest rates should remain rigid. Long-term interest rates reflect conditions in the capital market—the supply of savings relative to the demand for investment. Short-term interest rates are more largely determined by liquidity preferences and other more transient money market factors. To the extent possible without raising long-term rates, short-term rates may be permitted more flexibility than they have had in recent years. In particular, short-term and discount rates somewhat higher than those now prevailing may help to encourage investment in short-term government securities by banks and other holders of liquid funds and reduce the amounts that need to be bought by the Federal Reserve. Such a policy may be helpful in avoiding creation of additional bank reserves.

Proposal for Higher Required Reserves

In the light of these considerations, I think you will agree that there are fairly clear practical limitations on the use of interest rate policy to restrain further growth in bank reserves and accompanying bank credit expansion. This leads me to the second alternative, namely, an increase in the reserve requirement of all commercial banks. This alternative would require legislation granting additional authority to the Reserve System. The System still has unused power to increase the reserve requirements of member banks in New York and Chicago, but the leverage to be exerted through this authority would be relatively minor in relation to the problem that the banking system confronts. What is needed is a more general authority which would apply, as a matter of equity as well as economics, to all commercial banks. To this end, the Federal Reserve Board has recently recommended to the Congress that authority of a two-fold character be provided.

In the first place, the authority should make it possible for the System to impose on all commercial banks a primary reserve requirement up to 10% of aggregate demand deposits and 4% of aggregate time deposits, in addition to present requirements. If desired, the authority could be graduated by class of bank. This measure would give the Reserve System authority to increase total reserve requirements by a maximum of about $12 billion. It would enable the System, over the next few years, to absorb and sterilize the credit expansion potential occasioned by gold inflows and by Federal Reserve purchases of government securities from nonbank investors.

In the second place, the recommended legislation would enable the System to impose on all commercial banks, under proper safeguards, a special reserve requirement up to 25% of aggregate demand deposits and 10% of time deposits. This may be preferably described as an optional reserve requirement, because the special reserve could be held, at the option of the individual bank, in specified cash assets or in certain marketable short-term government securities.

It seems to me at this time that perhaps the most desirable arrangement would be to package together the optional reserve plan and the proposal for authority to increase primary reserves made by the Board to Congress in April. Provision might be made both for the optional reserve and for an increase in primary reserves as proposed, with the general limitation that the total increase in required reserves that might be applied by the two types of authority taken together could not exceed 25% of aggregate demand deposits and 10% of aggregate time deposits.

At the special session of Congress last fall when the Board was asked to say what might be done in the monetary and credit field

to deal with inflationary forces, its response was to recommend consideration of the special reserve plan. The proposal attracted considerable attention, much of which was adverse. It was objected that the situation was not yet serious enough to warrant such a measure, and that the Board already had enough power anyway. As to the timing, the Board proposal was not that the power be granted for instant application but that its use be authorized when necessary. The mere existence of such an authority would have some effect, of course, for most bankers had rather act on their own initiative than wait for a regulation to tell them what to do. Moreover, to wait till a situation is desperate before recommending appropriate legislation is scarcely what one would call statesmanship. As for the adequacy of Board powers, I think the point is whether the present powers are applicable. The power to raise reserve requirements in New York and Chicago, for example—which the Board could do—is not very helpful when the problem largely lies elsewhere. Moreover, it is impracticable to exhaust powers before the moment of their greatest effectiveness and unfortunate to have to exhaust them without some power in reserve. Finally, the Board was not seeking power but was responding to a request for suggestions at a time which was not of its own making or choice.

Some bankers have liked the special reserve plan and some have not. I have had doubts about it myself, and can sympathize with the doubts of others. Yet I know of nothing better, and the plan has advantages, I think, which have not been understood or appreciated.

Generally speaking, the optional or special reserve requirement would be capable of accomplishing the same restraints on bank credit expansion as a straight increase in primary reserve requirements, but it would be considerably less onerous to the banks. As I have just said, I sympathize with bankers who have questioned the desirability of the special reserve plan and I think I understand their misgivings Bankers naturally resent being blamed for everything. They did not bring on the inflation and they do not like to feel that all the pressure to stop it is being put on them. In reality, of course, restraint on the extension of credit happens to be one of the effective ways of resisting inflation, and we must not forget that we are speaking about it because banking is the field of our responsibility and not because we expect everything that is done to be done in that field and nowhere else. I certainly do not wish to give the impression that I have any patience with the tendency to take everything out on the bankers. I have a public duty to perform, but that duty is certainly not against the long-run interests of bankers. One of its aims is the protection of banking through banking itself. It is in this spirit that I should like to clarify the optional reserve plan, for perhaps our explanations have not sufficiently described the relative merits of the proposed measures.

Optional Reserve Plan

By way of preface it should be emphasized, as I noted earlier, that banks now hold $66 billion of government securities. From the standpoint of an individual bank and from the standpoint of the banking system as a whole, these securities are virtually excess reserves. That is, banks may sell government securities in the market to obtain reserves and unless other buyers appear, the Federal Reserve System must buy them in support of orderly and stable market conditions. In the process new bank reserves are created. As a matter of fact, nearly all large banks and many medium-sized and small banks recognize this characteristic of government securities by adjusting their reserve positions continually through purchases and sales.

Any plan to place restraint on the total volume of bank credit and the money supply must recognize the potential reserve feature of the government securities held by banks, or for that matter, of those held by other investors. As a measure to reduce the volume of potential reserves, it is as effective to immobilize a part of these securities in the portfolios of banks as it is to require banks to sell them to the Reserve Banks in order to meet an increase in primary reserves. In fact, as a device for meeting the very special kind of situation that now confronts us, the special or optional reserve plan has certain important advantages both to banks and to the public generally.

In the first place the optional or special reserve requirement, if imposed, would leave the banks with their holdings of government securities intact. It would make possible an increase in bank required reserves and at the same time avoid a considerable amount of banking readjustment, as well as any serious adverse effect upon bank earnings. It would simply immobilize a portion of commercial bank portfolios of government securities and discontinue the treatment of these holdings as excess reserves, i.e., as assets equivalent to cash and available for conversion into actual reserves at the bank's discretion through sale to the Federal Reserve.

The optional or special reserve, which would strengthen the demand by banks for short-term government securities and thus aid in the maintenance of relatively stable interest rates on government securities, would, on the other hand, make possible some increase in interest rates on private borrowing, particularly on short-term and medium-term borrowing. Any such rise would have the same restraining effects on inflationary borrowing as higher interest rates in general might have. More importantly, the plan would put pressure on the lender to ration scarce bank credit among customers and to reduce voluntarily the bank credit available for business expansion and consumer financing.

Furthermore, if government deficit financing again becomes necessary at some not too distant stage, the optional requirement would make it possible to tie the deposits created in deficit financing to the securities sold to the commercial banks and held as assets against the deposits. Consequently, it would be much more adaptable in coping with the problems of credit control incident to government deficit financing than an increase in primary reserve requirements would be.

Lastly, the optional or special reserve authority would restore flexibility and effectiveness to the customary instruments of Federal Reserve policy, i.e., open market operations and discount rates. In the traditional sense of their use for credit control purposes, these instruments have become largely unusable because of the dominance of public debt in the credit situation.

Criticism has been made of the special reserve plan that it would be too restrivtive and again that it would not be restrictive enough. Yet as a device for meeting the serious problems of excessive credit expansion the special reserve could be used with greater precision and with less danger of adverse reaction than could an increase in primary requirements, since the special reserve, as I said before, would involve fewer banking adjustments. Moreover, safeguards against too rapid application of the requirements are an integral part of the plan.

It has been said that the special reserve would not be restrictive enough because immobilization of short-term government securities would still permit banks to sell longer-term securities to obtain reserves. It is of course true that the plan would leave banks largely free to do this. Banks would be deterred from doing this, however, because they would be sacrificing a higher-yielding security, possibly at a book loss. Buyers other than the Reserve Banks might be attracted by these higher-yielding issues, thus avoiding the creation of new bank reserves through Reserve Bank purchases.

Some have criticized the special reserve plan because banks might need to sell higher-yielding bonds to obtain sufficient short-term securities to meet requirements. The resulting loss in earnings, it has been said, might cause banks to reach out for more risky, high-interest loans and investments, with consequent expansion in private bank credit and impairment of the condition of our banks. I believe this criticism does less than justice to the good common sense of the average banker as well as to the effectiveness of our bank supervisory agencies. It also does not take into account possible higher interest rates on sound private credit, and the increase in bank earnings from this source.

It is worth mention that a special reserve requirement, like an increase in primary requirements, would reduce the ratio of multiple deposit expansion that could be built on new reserves that banks might acquire from whatever source.

Supplementary Measures of Credit Restraint

My remarks thus far have been concerned with the major means of restraining redundant credit expansion. But there are also other measures supplementary to general credit policy which should be restrictive in particular credit areas and therefore helpful in controlling the aggregate volume of bank credit. I refer to the areas of stock market credit, consumer credit, and housing mortgage credit.

Credit to finance the purchase or carrying of listed stocks has been restrained up to the present by the Federal Reserve Board's regulation of margin requirements; and in view of the dangerous inflationary possibilities of the immediate future, it would be a grave mistake, in my judgment, to ease those requirements at this time.

Regulation of down payments and maturities in the field of consumer instalment credit is also needed, in my opinion. Reestablishment of this control would help to dampen consumer demand, especially for durable goods, financed on time-payment plans. This would help to curb further inflationary growth in consumer expenditures and to reduce the competition for available supplies of basic materials and manpower, on which the national defense and world aid programs must draw heavily. An auxiliary effect of this restraint would be some increase of savings, encouragement of which may be put down as an essential element of any program to fight inflation in the period ahead.

The third object of selective credit control that I mentioned is mortgage credit for housing, which for some time now has been one of the most inflationary factors in the current situation. Since early last winter, there have been mounting complaints — mainly from the building industry and veterans organizations—that residential mortgage credit is becoming tighter. Partly in response to these complaints, consideration is being given by Congress to legislation designed to reverse this situation. You are perhaps familiar with the proposals under consideration. They are, first, to continue on an unsound basis the mortgage insurance program under Title VI of the National Housing Act; second, to create a government financed secondary market for mortgages already underwritten by the government; and third, to relax lending conditions under Titles I and II of the National Housing Act. However, I am glad to say that, in this proposed legislation, some revelant economic facts have been faced; permissive interest rates on guaranteed and insured mortgages have been placed one-half per cent higher, and the pernicious "necessary current cost" cost formula for appraisal has been replaced by a "value" formula.

We are not at all sure that mortgage credit is getting tighter in any real sense. Financial institutions, including commercial banks, are still making mortgage loans at a substantial rate. Mortgage premiums, bonuses, and fees offered by lenders are lower or have disappeared, but loans are being placed. Borrowers are having a harder time getting 100% or 90% loans, but there is no sound economic reason why they should ever have had such loans. If recent anti-inflationary monetary and fiscal policies have been tightening residential mortgage credit somewhat, that seems to me all to the good, and, considering the inflationary conditions that prevail in the housing market, entirely consistent with the objectives of those policies. There is no such thing as an effective program of over-all credit restraint that avoids restrictive effects in particular areas which have large financial importance, such as residential mortgage credit.

Even without a strongly inflationary outlook for domestic economic developments, there would be very good reason for reconsidering and moderating any new program for the encouragement of mortgage lending. With such as outlook, the need for reconsideration is urgent. It would be better if we abandoned the program altogether, but at the least any further special encouragement of mortgage credit should be limited to rental housing. We shall not succeed in overcoming the housing shortage by increasing the competitive pressures on scarce supplies of materials and construction labor. What is needed is a continuing effort to keep the volume of mortgage credit from pressing too powerfully against these important supplies.

The sale of savings bonds offers a positive check on inflation that approaches the problem from a different angle. It withdraws money from the spending stream, thus reducing the pressure of buyers on a scanty supply of goods, and it substitutes private investment in government securities for bank investment, thus reducing the volume of bank credit and of bank deposits.

Lastly, an over-all restrictive credit policy will need to be supplemented by vigilant watchfulness on the part of the supervisory authorities and by voluntary self-restraint on the part of individual bankers. We believe that supervisory policy should vigorously maintain the soundness of credit extension by individual banks, and we have actively cooperated with the American Bankers Association in its nation-wide program of fostering banker-self-restraint. But the banks may expect continuing strong credit demands from businesses and individuals, and they are not in a position to refuse the sound credit demands of individual customers in good credit standing. I think that banks can fairly be asked to adhere strictly to conservative lending standards, and I believe that banks universally will respond to such requests. But I do not believe that they can extend credit competitively, as they must, in the interest of their local communities, and at the same time refrain from redundant credit expansion on a national basis—especially with the basic factors present that are now stimulating credit expansion.

Financial Strength Essential

Before closing, I should like to stress the fact that there is such a thing as a prudent, sound financial course for an entire economy. We are compelled by circumstances beyond our control to undertake commitments for world recovery and peace that no one till very recently would have anticipated. These commitments come at a time of full utilization of our manpower and resources, of heavy current and deferred peacetime demand by our own people, and of recent action to reduce our heavy burden of Federal taxes. There is no financial sleight-of-hand by which we can carry the unavoidable burden of our national program and still avoid further serious inflation. We must raise from the public the money that has to be spent and there must be some restriction on domestic demand for goods financed through bank credit.

These matters I have put before you are matters that it is the duty of the Board to bring not only to the attention of Congress but also to the attention of bankers and the public at large. Furthermore, it is our duty to do so in sufficient time to allow Congressional and public discussion and debate. And furthermore the powers the Board requires in the discharge of its responsibilities must first be granted by Congress in sufficient time for their exercise to be effective. Powers granted too late serve no particular good.

I hope the suggestions we are offering will not be greeted with the hackneyed comment that the Federal Reserve merely wants more power. To make that comment is to beg the question. The Federal Reserve System was set up nearly 35 years ago to exercise certain authorized functions in the public good. The world has not stood still since then, and presumably it will not stand still in the near future. We have had two great wars in that time, the magnitude of business operations has grown, and new forces have arisen. These developments make it necessary to adapt and enlarge the powers that changed conditions have rendered inadequate. I leave to your consideration the question what should be done about it.

New York Stock Exchange Weekly Firm Changes

The New York Stock Exchange has annouced the following firm changes:

The Exchange membership of Harold O. Barker was transferred to R. Drew Mellick, Jr., on May 6.

The Exchange membership of Robinson Simonds was transferred to Harold C. Mayer, Jr., on May 6.

On May 18 the Exchange will consider the transfer of the membership of James F. Shea to Thomas Campbell. Mr. Campbell, it is understood, will act as an individual floor broker.

Frank J. Hardiman retired from partnership in Aronson, Hall & Co. on April 30.

Joseph Zawadzski withdrew from limited partnership in Bendix, Luitweiler & Co. on April 30.

Interest of the late Henry D. Wieand in Bioren & Co. ceased on May 1.

New Vose Partnership

Effective May 18, the partners in Vose & Co., 60 Beaver Street, New York City, will be Alden H. Vose, Jr., member of the New York Stock Exchange, and B. Otto Jacobsen. Mr. Vose is acquiring the Exchange membership of the late Daniel F. McCarthy who formerly held the firm's membership.

Increased Spending Can Hasten War With Russia

(Continued from first page)

income that would otherwise be saved causes the big spending and high taxation policy to be a definitely inflationary force. The stability and continued progress of the whole economy are seriously threatened.

In Washington the men and the groups that have fought so valiantly for economy admit that there is a tidal wave of spending which cannot be resisted. The country, they say, is on a spending spree. Everybody is on the bandwagon, and the taxpayers are blowing the horns as loudly as the spenders.

This is a curious and alarming manifestation of mass psychology. It is quite contrary to the attitude normally to be expected after the close of a long, exhausting war. Even though this country was not invaded, nor were its cities bombed, there were serious war losses of a material sort. The normal provision for renewal and extension of capital plant was not made. An immense shortage of housing exists. Many kinds of necessary durable consumers goods are still in short supply. Important natural resources were heavily drained. The entire logic of the postwar situation points to the obvious conclusion that the attitude of the people should be one of settling down to work, to saving and investment, to the great task of reconditioning and new construction that confronts them. Instead, they have become wrought up to a state of mind which tolerates immense new drains, and which likewise tolerates the prospect of indefinite neglect of the civilian production job that clearly lies ahead.

Fear of War

The key to this abnormal state of mind appears to be the fear of war. That any nation can contemplate the prospect of another war, or can so quickly be prepared to engage in war after the economic and spiritual exhaustion of World War II, is contrary to all history and experience. This country is certainly not ready for another war, either materially or spiritually. If this be true of us, what about Russia, the only possible antagonist? The Russian home land was deeply invaded. Her most fertile lands were laid waste. Her principal cities were destroyed. Her railway system was badly damaged. Factories and power plants were wrecked. Her losses of men ran into the millions. She never had a modern highway system. Remember what was said during the German advance into Russia. "As soon as the autumn rains come, General Mud will be fighting on our side." The rains were late that year, despite our prayers for rain, or the Germans would not have reached Stalingrad. This goes to show that the Lord knows best, for Stalingrad was destroyed, but not captured, before King Winter broke the German attack.

There has been no full public discussion of the situation and the probabilities. Hanson W. Baldwin, writing in the New York "Times" of March 29, 1948, referred to the mounting emphasis by military leaders upon our defense weaknesses. As a matter of fact, the stories told by these leaders and by high administrative officials are not consistent, although the general impression that they appear to have created is one of underplaying our own defensive assets while overplaying those of Russia. Here are some examples:

General Orville Anderson, Commandant of the Air Force College, speaking to the Conference of Mayors in New York on Feb. 19, 1948, said the following, as reported in the New York "Times":

"I don't see why he (General Eisenhower) picked 60 days as the probable duration of the next war. If the enemy is prepared for decisive action in this atomic age, and if he understands the principle of concentration of strength, and if at the same time we are in a more or less similar state to the one we are in today, then I can see why he should take 60 days.

"The period, I think, will be one night, because that would be the proper application of material forces against a nation not prepared to counter."

There are numerous "ifs" in this statement, but the impression likely to be retained is that Russia can destroy us in a single night of bombing. The basic assumption made by General Anderson, which is that such a catastrophe would be possible if we stood still while Russia forged ahead, involves an important matter to which attention will be directed later.

Another example is provided by the remarks of Commander Greenhalgh in a lecture before a group of reserve officers in New York, as reported by Russell Porter of the New York "Times." In substance, the following points were made by Commander Greenhalgh: Russian economic potential is less than 25% of ours, and only seven percentage points were added from satellite countries. The weaknesses outweigh the strengths. Russia has a large military machine but is unable to move it because of a damaged railway system and lack of trucks. The Russian aircraft industry is geared to making small planes and lacks the production know-how to turn out heavy bombers. Russia will have trouble in making an atom bomb because of technical production difficulties.

Mr. Stuart Symington said recently, as reported in the New York "Times," that Russia has more B-29s than we have, which does not square with Commander Greenhalgh's statement regarding the Russia aircraft industry. Mr. Symington also said, in the same statement, that Russia could bomb any part of this country from Siberian bases with her B-29s. But the Finletter Commission stated that the effective radius of a B-29 with full load is about 1,600 miles, which would mean that the only part of this country open to attack from Siberian bases would be Alaska.

These conflicting statements do not parse. Because they do not add up to a consistent description of the situation, they are all open to substantial discount. The most convincing report, convincing because it squares with the reasonable evidence, is that Russia cannot move her war machine for lack of transport. The fear of many people has been that Russia could, at will, sweep westward to the Atlantic ocean against any resistance that we could offer. It appears reasonable to believe that the practical fact of immobility rather than any concern over treaties or agreements has held the Russians back.

Concern Regarding Atomic Bomb

Another understandable source of popular concern has been the atomic bomb. There is every reason to believe that Russian scientists understand the principles of physics and mathematics involved in nuclear fission. Every physics teacher in our own universities knows the theory and can write the formulas on a blackboard. But there is a whole world of difference between a grasp of the theory and the technical and industrial resources required to produce the end product and lay it on the shelf till needed.

The jockeying that has gone on within the branches of the armed services and between the Administration and Congress over various details of the proposed enlargement of the defense program reveals rivalry and dissention where there should be unity. The record is strongly indicative of bureaucratic politics, and of just straight garden variety of politics. The outcome, however, will be a commitment to military spending of a magnitude that will swamp the budget and the taxpayers unless strong measures are taken to change the present course.

The first and most important point upon which the people need information, and with regard to which all of the available evidence should be set out publicly, is the imminence of war. A war can get started from an incident that gets out of hand, or it can begin by being deliberately planned. A nation that plans war at a time of its own choosing is likely to be disposed to prevent premature incidents, if possible, from leading to war because of the effect on the main time table. Many people have been disturbed over the "you never can tell what may happen" view. The Russians have been impudent and obstreperous at various times and places. The behavior of Russian troops and officials is open to an interpretation of intentional provocation. For reasons given below, it does not appear likely that the purpose is to bring on an accidental war now or in the near future. All of the advantage of a surprise attack in force would be lost by letting a war get started that way. The Japs did not waste time or motion on provocative incidents before the attack on Pearl Harbor. A more reasonable view of the Russian bluster and shoving is that it is designed to get such concessions as we may yield in a game of bluff. Anything gained by such means is at a much cheaper price than fighting, and we must admit that they have taken some good pots on nothing better than a pair of deuces.

So far as Russia's long-range intentions are concerned, we are not warranted now in any other view than that war is definitely in her program whenever the Russian leadership can see a reasonable prospect of success. Time may work for peace here, for the war-minded group now in control of Russian policy will eventually pass away and it may be succeeded by new leaders of a more reasonable and rational frame of mind. This, however, should not be counted upon in advance.

The Russian Time Schedule

The principal reason for believing that the Russian time schedule does not call for war until after the lapse of some years is the great disparity of industrial resources as compared with this country. Success in modern, total war is not determined by the number of men in uniform, or by the quantity of war material on hand. It is determined in the end by industrial capacity. However provincial the Russian polit-buro may be, and whatever the kind of nonsense about Russia's greatness that may have been fed to the Russian policy makers by the "yes men," they are not so simple as to suppose that they can today match us in industrial power. Moreover, they are shrewd enough to realize the significance of industrial power as the basis of military might. In view of Russia's immense capital losses in the last war, and of the great economic disparity that now exists, it is reasonable to believe that Russia is not now ready for a planned war. Her major effort now and for the future will be to build up productive power and thus to close, if possible, the gap that exists between her industrial capacity and our own. If, after a lapse of time, they still want and plan war, it will come when they decide that the industrial gap is closed, or nearly enough so to warrant a test of the issue.

Everything in the available evidence points in this direction. The Mr. Magidoff who was recently expelled from Russia stated to press interviewers that most of the current production there consists of materials to build up the Russian economy. The people have just been "invited" to subscribe heavily to a new loan for this purpose. It is a command invitation, and a month's wages for each worker is specified as about the proper contribution. There is nothing in the available evidence that points to an intention to make war now or soon. If our responsible officials are in possession of such evidence, it should be made public.

Assuming that the real danger period lies some distance in the future, and Secretary of Defense Forrestal has indicated his belief that such is the case, what should our own national policy be at this time? The answer is clear. We should adopt a course that will best assure the further growth of our own industrial power so that the gap between Russian economic capacity and our own will not be closed, or even narrowed significantly. If this gap is the reason for peace now, keeping it open will be the best assurance of peace in the future.

Should Develop Our Industrial Power

How do we develop our industrial strength and power? Again the answer is clear. It can be done only by devoting more of our economic resources to the task. Here is where the spending spree on which we are now embarking can be of irreparable, tragic damage. If we let ourselves be committed to Federal budgets of $45-$50 billions, for military and nonmilitary purposes, we shall absorb, in the carrying of a huge load of governmental unproductiveness, so much of the nation's capacity to grow as to slow down tremendously the rate of growth. It will be the case of the hare and the tortoise over again. Russia can close the economic gap if we stand still long enough. General Anderson was right in a way that he did not intend, when he said that if we remained as we now are, the enemy could some day overwhelm us. His emphasis was upon building up now a super air force. The correct emphasis should be upon the industrial capacity to create such an air force when it is needed. Secretary Forrestal has pointed out the unwisdom of building too many planes of present design now, because they will be obsolete in the danger period that lies ahead. The present and proposed taxing and spending programs will slow us down toward a standstill. They will therefore be the most important contribution that we can now make to causing the next war, and to assuring the prospect that we shall not win it.

The basis of this prediction is that there can be no adequate provision for the amount of new capital needed for sound national growth under the existing tax load. Every business man knows that the growth of his own business depends upon getting more capital for it. What is true for each separate business is also true for all business, and for the nation. The great expansion of output which occurred in this country over the last century was caused primarily by the additions to capital. Data that have been compiled back to 1869 indicate that from that year to 1928 there was a regular "plow back," on the average, of 20% of the gross national product. In other words, one-fifth of each year's crop was put aside as the seed corn for making a bigger crop the next year.

This regular addition to the seed corn of capital is what led to the increase in product and prosperity. It led to an average rate of growth, from 1869 to 1928, of 3.8%, compounded annually. It provided jobs for the increasing labor force, permitted higher wages, raised real incomes, advanced living standards, and created a vast flow of goods and services that put us immeasurably ahead of every other nation that ever lived on this planet.

Deficient Capital Formation

There was a bad slippage in the rate of capital formation in relation to gross national product during the 1930's. To what extent the depression was prolonged and intensified by this decline in capital formation we may never know, but we do know that there was no prosperity during that decade. Secretary of Commerce Averell Harriman stated in the hearings on the 1948 tax bill that there is now a serious deficiency of capital, and this is borne out by independent estimates. The Research Department of the National Association of Manufacturers has estimated an annual deficiency in capital formation below what is required to maintain the historic rate of growth in the magnitude of $7-$8 billion annually.[1] This estimate had been confirmed earlier and independently by the President, who said in his State of the Union message that industry would need to provide $50 billion of new capital over the next few years in order to supply the wants of consumers.

Here is the core of the nation's fiscal problem and also of its problem of long-range national security. The funds for capital formation and national growth cannot be provided without tax reduction, and we dare not reduce taxes until the Federal spending comes down. Instead of lower spending, the Federal budget has already gone through the ceiling and is on its way through the roof.

Politics and Spending Spree

Can the spending spree be stopped? Probably not, as a matter of politics, unless the people quickly come to a rational view of the war situation and prospects. Were such rationality possible, then the problem of building for defense would be expressible in terms very different than those currently discussed and considered. In the light of reason the following points could be noted:

First: there are substantial possibilities of economy within the armed services. Both the Finletter Commission and the Brewster Commission emphasized the large savings attainable under the Unification Act of 1947. These savings should be sought without further delay. Even on the basis of the suggestions made by subcommittees of the House Appropriations Commitee in their reports on the 1948 Army and Navy bills, the total that can be saved would be at least $1 billion.

Second: If Mr. Forrestal's suggestion that there should not be overbuilding now of planes already obsolete were to be taken seriously, then the immediate problem, so far as aircraft is concerned, is to promote research and development, and to establish the aircraft industry on a basis from which it can expand promptly when and as needed. The Finletter Commission considered the question of a soundly organized, healthy aircraft industry and presented the following estimate of the annual business required to maintain it in that condition:

"This Commission believes that military requirements for 30,000,000 to 40,000,000 airframe pounds annually, in addition to demands for commercial and private planes, would provide a sound basis for

1 Hearings before the Committee on Finance, United States Senate on the Revenue Bill of 1948, pp. 219, 220.

expansion in an emergency." (Report, p. 46.)

On the basis of cost estimates used by the above Commission, the amount required for the annual production of 40,000,000 airframe pounds would be approximately $1,750 million. The President's budget for the fiscal year 1949 contained the following recommendations with respect to funds for airplane procurement in that year.

	Amount
Air Force—	
Plane procurement	$767,000,000
Contract authorization	550,000,000
Total Air Force	$1,317,000,000
Naval Aviation—	
Appropriation for planes	$255,000,000
To liquidate prior contract authorization (deduct)	150,000,000
Net appropriation	$105,000,000
New contract authorization	373,000,000
Total for Naval Aviation	$478,000,000
Grand total for plane procurement	$1,795,000,000

It would appear, from these figures, that the provisions for plane procurement recommended in the original 1949 budget, including both appropriations and contract authorizations, were sufficient to meet the maximum standard for the adequate organization of the aircraft industry set up by a commission of experts appointed by the President. None of the groups of experts that have expressed aircraft production in terms of airframe pounds have translated such figures into number of aircraft by types or functional purposes, such as fighters, bombers, transports, and so on. It is evident, however, that an annual volume of production sufficient to rehabilitate the industry to the degree contemplated by the Finletter Commission, and involving an expenditure of a billion and three-quarters of dollars, will represent a substantial outflow of planes. It is by no means a penny-pinching policy, and it will add materially to the stock of planes on hand.

The Finletter report states that the Air Force has on hand 10,800 aircraft in active status and some 12,800 in reserve. The number required for a 70 group air force is put at 12,400 active planes and 8,100 in reserve. The total now available is therefore ample, although the distribution of the existing planes by types may not be ideal. To the extent that deficiencies of certain types are serious, they can be corrected by proper channeling of new production. The Navy is said to have some 10,193 planes, active and in reserve, which is stated to be enough to equip the active carriers and supporting air operations. The estimates of both the Air Force and the Bureau of Aeronautics as to the size of the necessary reserve are based on wreckage or attrition rates greatly in excess of the experience rates.

The ambition of both the Air Force and the Bureau of Aeronautics is to have, now or as quickly as possible, a completely new equipment of planes. Hence they are pressing for much larger totals of funds than the budget originally proposed. The argument based on obsolescence can be pushed too far, and it has been in this case. Every plane on the runways is obsolete by comparison with designs still on the drawing boards. And when these latest designs are carried through into production, those planes will also be obsolete by comparison with the next set of designs that are still on paper. The mistake is often made of comparing our operating planes with Russian designs not yet in production, and the inference is drawn that we are far behind. The fact is that our planes in operation are as modern as the Russian planes in use, and our designs are fully as advanced as theirs. The design-manufacturing cycle is fully as long, perhaps even longer, there as it is here. With our superiority in tool-making, it is likely that our industries can re-tool for a new design more rapidly than can Russian industry. Certainly, we are under no handicap in this respect.

Aircraft Sufficient

The calm, objective conclusion that should be reached is that there should be no immense increase in the funds to be provided for aircraft procurement. The original budget recommendations, if approved, would be adequate. Changes of procurement policy are needed and are authorized by legislation already introduced. Whatever amount that can be justified for research, development, testing, and other improvements in plane and engine design, new fuels, and so on, should be provided. The military should not be permitted to become the sole, unquestioned arbiter of the amount needed. Mr. Forrestal told the Armed Services Committee that the $3 billion increase which he was recommending had begun as a $9 billion total of requests from the chiefs of staff and the special services. His citation of the English statesman's comment that the military would fortify the moon if given their way, was strictly in point.

In order to keep the total spending, and thereby the total taxing, down to a level at which provision can be made for national growth through adequate capital formation, it is necessary to restrain, not only the military spending, but also the nonmilitary costs. The spending spree has extended into the latter to an extent that threatens the integrity of the legislative budget ceiling already approved by the Congress. Senators Bridges, Ferguson and Reed, of the Senate Appropriations Committee, have recently filed a protest against the size of the Rivers and Harbors Bill reported to the Senate. A full generation ago this bill had already become known as the "pork barrel." That dubious reputation has evidently remained untarnished through the years. But much more must be done than to strike out $200 million from rivers and harbors, as the protesting Senators demanded. There must be substantial cuts up and down the line. In the statement issued by Senator Bridges and his dissenting colleagues it was pointed out that $7 billions of appropriations had been considered by one House or the other, with reductions totalling only $300 million.

Foreign Aid

The foreign aid program which now bulks so large in our budget should be subject to constant review and reappraisal. The idea of pouring out our bounty to help peoples less fortunate than ourselves struck a responsive note because of the innate generosity of most Americans. Passing over here the question of the propriety of putting this kind of relief on a governmental, tax-supported basis —as against its logical basis of private support—it is clear that the innocent proposal originally made by Mr. Marshall soon got entirely out of hand. For one thing, it was left to foreign politicians to say what was needed. A new York "Times" correspondent, Michael L. Hoffman, wrote from Geneva on Feb. 1, 1948, as follows:

"Incomplete but concrete evidence that European industrial recovery is a lot farther along than most persons think and most European politicians say is accumulating in Geneva. . . .

"It has been known for a long time that several, some think most, countries in Europe now have a greater total of goods and services available for consumption than before the war. That is, if one takes domestic production, adds imports and subtracts exports, all valued according to prewar prices, the net figure is bigger than the similar figure in, say, 1938."

Although Mr. Marshall did not mention communism in his Harvard address, the ERP has become an important part of the fight against communism. It must be very puzzling to a European to learn that we so strongly disapprove of his being a communist, and voting as one, that we are willing to spend large sums of money to persuade him and his fellows to vote otherwise; while here we can't decide whether or not to let the communists organize and operate as a party on their avowed platform to overthrow the existing government, by force if necessary. If the techniques of the Italian election had been used in Missouri, it would be open to the charge of having been bought. The whole matter is puzzling to many Americans who see, in the communist appeal to the guarantees of a constitution they despise, the supreme communist hypocrisy. Treason has many forms. What did Benedict Arnold plot and plan to do that the communists in our midst are not plotting and planning to do now? Democracy's soft under-belly has never been more completely exposed than it has been in the current debate over the legal rights of those whose clear purpose is to rip it apart. The battle of ideas and ideologies cannot be won with dollars. There is a far better chance of winning it by demonstrating the advantage of the free enterprise system, but that demonstration is impossible while government exacts and spends so much as to hamstring this system.

There are many points in the Federal budget at which spending can and should be reduced. Space limits forbid further discussion of them here. In the overall sense, reduction of the burden of government is of peculiar importance in a free economy. In the race for industrial supremacy we are pitted against an opponent who can determine, by decree, the share of national product that shall go into new capital. One estimate puts it as high as 39-40% in Russia. We cannot expand our capital plant by decree. We are dependent upon the economic motives and incentives of free men, both for the total to be produced and for the share of the product that will be put aside as national seed corn for making a bigger crop. These incentives are powerful, but their power cannot be exerted in the shackles of excessive taxation. Our gravest national danger for the future is right here. It is that we shall continue to tax and spend lavishly, thereby keeping a ball and chain hitched to the economy and holding it back until the enemy finds himself strong enough to make the attack. His slave economy can never overtake our free economy if we keep ourselves stripped for the race. The spenders must be stopped and thrown for a heavy loss.

United States Exports—Their Current Status and Outlook

(Continued from page 3)

July and held steadily through the year, showing an upsurge in December to $124 million, a slump in January to $99 million and then up to $118 million in February. Finished manufactures at $873 million in May held steady at first, then declined and were up to $626 million in February, up from $620 million in January. Manufactured foods have dropped steadily along with cotton fabrics and semi-manufactured materials. Manufactured foodstuffs at $175 million in May and $179 million in July were at $112 million in December and down to $101 million by February. Semi-manufactured articles at $174 million in May and $156 million in July slowly slumped to $137 million in December and were at $120 million in February.

Generally speaking, the trend is downward with those commodities being shipped under the various foreign trade programs (Army Civilian Supply, Interim Aid, U. S. Foreign Relief, Greek-Turkish Aid), increasing in volume lately or holding their own. This has resulted in a statistical upsurge for March shipments.

Also, in those cases where severe shortages have hampered shipments up until now and there is a loosening-up at the present time, no decline is apparent. For many firms which specialize in certain metal products there has been a continuity in the flow overseas.

Geographically speaking, where has the greatest loss been? South America and those Latin American countries in the northern hemisphere have shown the sharpest declines this year while European countries (especially those expecting aid under ERP), although they declined greatly last year have reversed the trend and have been holding up and have generally showed an increase in January over December in violent contrast with the Latin American market which has slumped consistently since the first of the year. There were declines in February in the European trade, but that may be explained by the shortness of the month and may be just a statistical decline. Export trade with all Latin American republics totaled $369 million in May; $303 million in July; $288 million in September; went up to $342 million in October; $345 million in December, but showed a sharp decline in January to $280 million and ended February with $270 million. The monthly average for 1947 was $321 million.

Exports to Europe which registered $565 million in May and $470 million in July, slumped to $403 million by December, but have held steadily around that figure with $401 million in January and $399 million in February, a completely different pattern than the Latin American.

The United Kingdom showed the sharpest decline in Europe, having received $94 million in May and $58 million in December, but following the trend of the rest of Europe picked up to $72 million in January and $61 million in February. Italy declined from $48 million in May to $27 million in July, but started on the upward march to $33 million in December, $35 million in January and $40 million in February. France imported $70 million worth from us in January over $59 million in December, but slumped to $57 million in February.

Such countries as the Union of South Africa, which averaged a monthly value of $34 million imported from the U. S. in 1947, did $38 million in January and $36 million in February. There has also been a great stimulus in U. S. exports to Japan, valued at $30 million in January and $37 million in February, as against a monthly average of $5 million in 1947. Business with the Philippines has been generally good, with $42 million in January and $43 million in February, as opposed to a 1947 average of $36 million per month. China has fallen off its 1947 average.

What are the prospects for the private trader in view of the recent trend? In the light of declining dollar balances and depleted gold reserves and the tendency of South American countries to carefully guard what they have on hand, the day of the $14 billion export market would appear to be over, unless imports into the United States take a tremendous spurt. Although the volume of imports into this country has been steadily increasing at a very satisfactory rate, it has a long, long way to go before it even approaches a normal balance with exports. Imports in 1947 ran to $5,739 million, or a little over one-third of the export total. In the first months of this year they were closer to one-half the value of exports, but that is accounted for as much by the decline in exports as the rise in imports.

Into this picture, however, the Economic Recovery Program has injected an added stimulus which may result in keeping the year 1948 in the same statistical category with 1947, although the emphasis will be on commodities outlined as vital under the original Marshall Plan requirements. While the actual method of administering the Aid program has not crystallized, feelers put out have indicated that, wherever possible, private channels will be used. The sentiment among traders is that not too much of ERP money will find its way into the middlemans' hands; that government agencies will deal directly with the producers. Especially does this affect the coastal exporter such as one finds in New York, since in large over-all programs their services are often dispensed with. However, it remains to be seen and all are anxiously watching to see the program shape up. Most recent indications are that it is the desire of the government to bring as many traders into the program as possible.

This feeling has altered recently because of the remarks of ECA spokesman who reiterate that private exporters will benefit.

It is generally felt that the program will have secondary repercussions which will manifest themselves in private export. Funds which today are being closely held for bare necessities by foreign currency controls will be spread into other commodity channels. Imports, based upon the increased productivity of factories in other nations and spurred on by shortages in domestic lines which may result, will continue on the upward grade and make additional dollars available. Then again, a goodly portion of the funds are expected to be spent on purchases in South American countries such as Brazil and Argentine, increasing further those countries' dollar holdings and encouraging renewed buying from private sources here in the United States.

There is a feeling of confidence among most export merchants today that ERP will generally have a favorable effect on their trade, and some say they have already felt it. Increased orders have been received for shipment later in the year and subject to release of credits. Others have a feeling of optimism based on the psychological impression ERP has made on their customers. Altogether, there is an attitude of watchful waiting with a faith in the renewed vigor of the American export market.

The published statistics for March have shown surprising increase in shipments of certain commodities since there was a determined effort on the part of the government to funnel as much relief as possible into Italy before the elections. ERP seems to be moving along even before the administrative set-up is completed and the cumulative benefit may be experienced before anticipated.

Appraises Proposals for Amending "Waiting Period" Restrictions

(Continued from page 19)

of oral offers. Accordingly, we agree with the staff's 1947 requirement that if a seller wishes to communicate with a prospective purchaser in writing, the writing must be either (i) an identifying statement or (ii) any other writing provided it is accompanied or was preceded by a statutory prospectus (which could omit price and related data if unknown at the time). As stated in the staff's memorandum, "The 'identifying statement' would be limited to content so that it would serve not as a selling document but purely as a screening device to ascertain what persons were sufficiently interested to warrant delivery to them of the statutory prospectus."

(2) **Sales:** The prohibition of the present Act against sales during the waiting period should, of course, be retained in the amended version of the Act.

B. After the Effective Date

(1) **Offers:** The procedure to govern oral and written offers after the effective date should, we believe, be the same as that which we have recommended above concerning offers during the waiting period, and for essentially the same reasons: it represents the least possible interference with normal business practices, does not involve virtually insuperable enforcement difficulties, and is supplemented by the safeguards imposed on the procedure for making sales in the post-effective period.

(2) **Sales:** The recommended abandonment of existing limitations on offering activities during the waiting period, and the proposal to permit oral offers after effectiveness, underscore the necessity of evolving an appropriate procedure to govern sales after the effective date. That procedure should protect public investors through practicable controls which will involve a minimum of interference with normal business practices. The devices for achieving this objective that have figured most prominently in the discussions between the Commission and the industry are (i) conferring upon the purchaser a power not to continue with the purchase in the event a statutory prospectus had not been delivered a stated period before the sale took place (hereinafter sometimes referred to as the "out clause") and (ii) requiring the seller to deliver a statutory prospectus to the purchaser a stated period—say 24 hours—before the sale takes place (hereinafter sometimes referred to as the "24-hour requirement"). Enactment of either of these proposals would be a long stride toward correction of existing abuses and realization of the original objective of the Securities Act that public investors should be enabled to reach informed judgments concerning security offerings. As between the two, however, the 24-hour requirement embodies the preferable procedure.

Under the out clause procedure advanced by the industry in 1941 and by the staff committee in 1947, an investor who had "purchased' 'a security before receiving a statutory prospectus could, within a stated period after being furnished a prospectus, notify the seller of his election not to continue with the purchase. It might be interesting, but not particularly relevant or helpful, to speculate whether delivery of a prospectus and the purchaser's failure to notify of his election not to proceed with the purchase is a "condition precedent" to the existence of a legal "sale," or whether non-delivery of the prospectus (or delivery and notification of an election not to proceed) is a "condition subsequent" to the "sale." For purposes of appraising the out clause, analysis of the legal relations existing between purchaser and seller must give way to the average purchaser's reaction; and it seems clear that under either the industry's or the staff's version of the out clause, the average purchaser's reaction would be, "Yes, I have made a deal with the seller. I have bought the security. But I can get out, if within a certain period after I receive the prospectus, I notify the seller that I want to call the deal off."

If, as we are fimly convinced, investors would react in this manner, the out clause is fatally defective in that it would permit securities salesmen to induce investors to purchase on the basis of inadequate information orally conveyed. After the investor had made up his mind to buy, he would then be given information on the basis of which he could make up his mind to cancel his commitment. As SEC Commissioner Ganson Purcell stated before the House Committee in 1941: "There is a fundamental difference between forming a judgment on the basis of complete information and upsetting a judgment once formed. The suggestion is to let the investor commit himself and then get out of his commitment, if time and circumstances permit, when that commitment has been based in the first instance on admittedly incomplete information. . . . As a matter of fact, I suppose it is an attribute common to man that once one has made up his mind on a matter he takes a certain pride in his decision and hesitates to reverse himself. There would indeed be an inertia on the part of an investor who had decided he wanted to buy a security which would militate against his studying the matter further after he had given his word to buy."

A related weakness of the out clause procedure arises from the requirement that in order to take advantage of the out clause the purchaser must give notice. Although the purchaser's inaction might be due to other reasons—e.g., lack of time to examine the prospectus because of pressure of other business, or failure to receive the prospectus because of absence from home or office—he would nevertheless be committed to purchase if he failed to act within the specified time, which in the case of the industry's 1941 proposal might be a very short period. If it is desired that purchasers reach informed judgments concerning securities, a procedure permitting, perhaps encouraging, inaction seems an inappropriate means for realizing the objective.

An additional defect in the out clause procedure is the danger that a purchaser who elects not to proceed with the purchase will be branded a "welsher" and blacklisted from participating in future offerings. It is, of course, hazardous to predict the action of the industry or of a substantial percentage of the members of the industry in the event purchasers did utilize the out clause. But it seems highly probable that the purchaser who took advantage of the out clause would find that he was not invited to participate in future desirable offerings. This, at least, was the opinion of the Commission in 1941. In any event, it cannot be doubted that apprehension that he would be branded a welsher and therefore excluded from future desirable offerings, would deter many investors from taking advantage of the out clause.

The foregoing observations apply equally to the industry's 1941 and the staff's 1947 versions of the out clause. The industry's version is defective for still another reason: under the industry's out clause procedure purchasers who had acquired securities after the first seven days of the offering would not be covered by the out clause. Successful issues are often marketed within a very few days. Distributions extending beyond a week would surely call for increased sales effort. Precisely at that point purchasers should be afforded the maximum protection. Yet, it would be precisely at that point that the industry would withdraw the protection of the out clause.

It is for these reasons that we are convinced of the inadequacy of any amendment program based on an out clause procedure. Fortunately, the 24-hour requirement offers greater promise of providing reasonable investor protection without imposing undue burdens on the process of distributing new issues of securities.

Under the 24-hour requirement procedure it would be unlawful to sell the security unless the purchaser had been furnished a statutory prospectus at least 24 hours before the sale. In broad outline the proposal would operate approximately as follows: Immediately after a registration statement had been filed with the Commission, the underwriters would circulate copies of the identifying statement among dealers and public investors. The underwriters also would make extensive use of the telephone to communicate with dealers and the public. Dealers in turn would distribute identifying statements to their customers and discuss the offering with them in face-to-face and telephone conversations. The identifying statements and oral communications would evoke expressions of interest from investors and dealers, thus enabling dealers and underwriters to gauge the likely demand for the issue. Underwriters also would be able to reach a general decision concerning the dealers who would be available for inclusion in the selling group. Then, after the Commission's staff had examined the registration statement and had informed the registrant concerning any deficiencies in the statement, copies of the prospectus (complete except for unknown price and related data) would be sent to interested dealers, and by them to investors who had expressed interest in the security. Perhaps two or three days before the effective date, price and related data would be filed with the Commission in the form of an amendment to the registration statement. and also communicated by the underwriters to the dealers and by them to their customers. On the effective date, dealers would effect telegraphic purchases of their allotment from the underwriters and would immediately telephone or personally visit customers who had already received the prospectus and the omitted price data at least 24 hours before. Sales could then be made, or if the time schedule were such that the omitted price data could not be furnished to dealers or investors at least 24 hours before effectiveness, the proposal would permit a sale to be made to any purchaser who had received the "priceless prospectus" at least 24 hours before, provided that the omitted data was furnished immediately prior to the time of the sale. The same general procedure would be followed in the post-effective period except that then the prospectus would contain the price data, and therefore there would be no omitted information to be furnished immediately prior to the time of the sale.

The 24-hour requirement, in making the statutory prospectus the main selling document, rather than an "unselling" document as under the out clause procedure, provides adequate protection for the public investor. It is difficult to see how the requirement would impose impracticable or undue budens on the process of distributing new issues of securities. But in the 1941 hearings the industry advanced two principal objections to the 24-hour requirement.

The industry first pointed out that a somewhat inconvenient situation would arise in the case of an unsolicited offer to buy received by a dealer after the effective date. In such a case, the dealer could not conclude the transaction but would have to furnish the prospective purchaser with a prospectus and advise him to repeat his offer to buy after a lapse of twenty-four hours. If the buyer did this or the dealer was able to re-establish contact with him, then the sale could be made if the securities were still available.

There is implicit in this objection the idea that securities in a great measure sell themselves. But the industry's efforts to secure greater latitude in the activity permitted during the waiting period indicates that this notion is in large measure contrary to the facts. In the relatively few instances in which the prospective purchaser would take the initiative no great burden would be imposed upon the dealer since it is unlikely that the purchaser would be discouraged unless what he read in the prospectus influenced him to change his mind. There is, of course, the possibility that an individual investor might find that all of the securities had been sold when he renewed his offer to buy. But the protection afforded to investors as a group by the 24-hour requirement is well worth the price of these few individual disappointments.

The industry's second objection was that even in the most carefully managed distributions "it is improbable that . . . a sufficient supply of prospectuses" would be in the hands of all dealers in time to enable them to get the prospectuses to their customers twenty-four hours in advance of the effective date, and that this in turn would create a tendency to dispose of new securities, especially those of high quality, only in large financial centers where it would be comparatively easy to distribute prospectuses during the waiting period. However, we do not believe that the evidence advanced by the industry in the 1941 hearings demonstrates the impossibility of making adequate dissemination of prospectuses during the waiting period.

Perhaps the underlying basis of this industry objection is that rather than being impossible to circulate prospectuses adequately, (i) it would increase costs and (ii) might delay the distribution procedure to some extent. There was considerable testimony by industry representatives in the 1941 hearings concerning the extent to which distribution costs had been increased by the existing statutory requirements, and the tendency of such increase to divert desirable offerings from public to institutional purchasers. The Commission, on the other hand, took the position that any increase in costs had been more than offset by reduction in underwriters' fees brought about by the full disclosure provisions of the Act; the Commission attributed the growth in institutional purchases to other factors. As a whole, therefore, the testimony on this point of increased costs was inconclusive. Evidence of a much more compelling character should be adduced before it is concluded that the 24-hour requirement would entail such additional costs as to make it impracticable. The objection that the 24-hour proposal would delay distribution should not be given serious consideration unless it can be demonstrated that the delay would reach such proportions as substantially to burden the distribution process. And, as previously stated, the 24-hour requirement should not have this effect. In our opinion therefore, the industry's objections do not go to the heart of the 24-hour requirement.

Although, for the reasons outlined above, the 24-hour requirement is to be preferred over the out clause, adoption of either proposal would be a significant advance. In either case, underwriters and dealers would endeavor to disseminate the "priceless prospectus" to investors during the waiting period. They would then be in a position to make the sale on the day of, or shortly after, effectiveness by supplying the omitted price data immediately prior to the time of sale. To the extent that sales were effected in this manner, investors would be furnished the necessary information and the distribution period would not be delayed. In the ordinary case, then, of a distribution by an underwriting group which had secured the issue through individual negotiations with the issuer, either proposal would be practicable. But when the issuer-underwriter arrangements result from competitive bidding for the issue, difficulties would be encountered under either proposal. In this situation the issuer files the registration statement before bids are invited. Various underwriter groups then submit sealed bids, and the award is made to the highest bidder. During this time, the waiting period is expiring. On the day the successful bidder is selected, or the day such selection, the registration statement usually becomes effective and the public offering begins. It would be uneconomic for each group of bidding underwriters to distribute identifying statements and "priceless prospectuses" to dealers and for the dealers in turn to distribute those documents to their customers: since only one group of bidding underwriters will be successful, the documents distributed by the unsuccessful bidders would largely be wasted. Also, the exceedingly short period between the date the successful bidder is determined and the public offering begins does not provide adequate time for distribution of identifying statements and prospectuses. Therefore, in a competitive bidding situation, underwriters and dealers could not, as a practical matter, disseminate "priceless prospectuses" during the waiting perid. Distribution of the issue thus would be delayed, and underwriters and dealers would themselves be "on the hook" for a longer period than otherwise.

Reference has already been made to the fact that the American underwriting business is geared to speedy distribution, to minimization of risk, to being "on the hook" for no longer than is absolutely necessary. The administration of the Securities Act has neither sought nor achieved substantial reform of this phase of the underwriting business. Underwriters still make their final commitments to issuers only a few days before the security is offered to the public. They still endeavor to carry the risk for the least possible time. Accordingly, any amendment suggestion which would increase the underwriters' period of risk by as much as 24 hours—as would be the case under either the 24-hour requirement or the out clause proposal in a competitive bidding situation — undoubtedly will be resisted by the industry.

Perhaps the short answer to such an objection is that the public interest in being informed outweighs underwriters' private interest in minimizing risks. At the other extreme, it might be urged

that securities required to be sold through the competitive bidding procedure are of such a character and subject to such supervision by governmental agencies that public investors being offered those securities do not require the protection of the 24-hour requirement or of the out clause. Or an intermediate procedure might be evolved. In any event, the fact that exception or modification might be necessary in the case of issues subject to competitive bidding requirements does not, in our opinion, detract from the essential soundness of the 24-hour requirement.

Curb 5 & 20 Club Dinner

The New York Curb Exchange members' Five and Twenty Club held a corned beef and cabbage dinner at the Downtown Athletic Club, Wednesday evening, May 12.

Mortimer Landsberg, President of the club, presided at the affair, with Edward C. Werle, Chairman of the Curb Board of Governors, Andrew Baird, Vice-Chairman, and William A. Lockwood, General Counsel of the Exchange, present as guests of honor.

The committee arranging the dinner was headed by Jack Feinstein as Chairman and included Charles Halden, Walter E. Kimm, Henry L. Goldberg and James J. Hopkins.

Bauer Pleads Guilty; Sentenced

Kenneth L. Bauer, of East Orange N. J., according to the Securities and Exchange Commission and the Department of Justice, pleaded guilty to a 15-count indictment charging violations of the anti-fraud section of the Securities Act of 1933 in connection with purchase and sale of securities for and from customers. Mr Bauer was sentenced to imprisonment of one year and one day.

Would Raise SEC Pay

Last week Representative Fred E. Busby (Republican), of Illinois, introduced a bill to increase the salaries of the members of the Securities and Exchange Commission from $10,000 to $15,000 a year.

Business Man's Bookshelf

Governmental Costs and Tax Levels — Lewis H. Kimmel — The Brookings Institution, Washington 6, D. C.—paper.

Hamilton Manufacturing Company — memorandum — John B. Dunbar & Co., 634 South Spring Street, Los Angeles 14, Calif.

History of the Petroleum Administration for War, A (1941-1945)—Prepared under the direction and editorship of John W. Frey and H. Chandler Ide—Superintendent of Documents, U. S. Government Printing Office, Washington 25, D. C.—cloth—$3.

International Wheat Agreement, The—An Analysis and Comment — National Grain Trade Council, 607 Hibbs Building, Washington, D. C.—paper.

Public Regulation in Action: The Experience of a Michigan Gas Company—Floyd A. Bond—Bureau of Government, University of Michigan, Ann Arbor, Mich.—paper—$1.35.

These Rights Are Ours to Keep—Jerome Ellison—Public Affairs Committee, Inc., 22 East 38th Street, New York 16, N. Y.—paper—20c.

The State of Trade and Industry

(Continued from page 5)

increase of 39,329 cars, or 4.6%, above the preceding week. They also represented an increase of 9,064 cars, or 1.0% above the corresponding week in 1947, and an increase of 220,327 cars, or 32.8%, above the same week in 1946 when coal loadings were reduced by labor troubles.

The Association also noted, that railroad coal loadings for the week ended May 1 this year were the highest since February, 1930, with the exception of the second week in December, 1946.

STEEL OPERATIONS SCHEDULED AT 3.6% ABOVE LAST WEEK'S CAPACITY

If the Federal Trade Commission wanted an unsystematic pricing practice in the steel industry, it has it this week in the multiple pricing "system." Whether or not it will stand when demand drops below supply remains to be seen, states "The Iron Age," national metalworking weekly, in its current review of the steel trade.

Most large steel firms have met the U. S. Steel Corp.'s price-cutting move—on a total basis. But the cuts have not been the same on all products. Some firms made no reductions on some items the Corporation reduced, others slashed their prices by a lesser amount, while one company made deeper cuts on a few items, the latter being an exception, according to the magazine.

The steel user will benefit in the long run if the reductions remain in effect, "The Iron Age" points out, but he will not always be able to tell what his total steel costs will be ahead of time. It depends, the paper adds, on where he gets his steel.

On top of the new steel price picture is the railroad freight rate increase which might offset any advantage steel users may gain by the reductions. There is a chance that the railroads will never get the full benefit of the freight increase in steel products, states this trade authority, since trucking firms and barge lines are already preparing to do a land office business on steel shipments when steel firms and steel consumers study ways and means to sidetrack the railroads on many shipments.

Steel making costs are high and the Federal Trade Commission is trying to force the industry on an f.o.b. mill basis even before the present steel pricing case is settled. Because of this, there is little chance that steel firms will go far out of their way to sell steel—at least under present market conditions.

The steel supply outlook is not a happy one for the consumer this week. Happy predictions that the industry will better last year's performance of 85,000,000 tons of ingots can not be made this week. They can not be made, if at all until the threat of another coal strike in July has been estimated, the trade paper adds.

The coal strike of a month ago cost the industry more than 1,500,000 tons of ingots. Another coal strike of similar length will cost more than that. No steel company has any coal to spare at the moment—nor will they have by the end of June. If the industry gets by without another coal stoppage there is a chance that more than 85,000,000 tons of steel will be made this year, but it is a shaky "if," "The Iron Age" concludes.

The American Iron and Steel Institute announced on Monday of this week the operating rate of steel companies having 94% of the steel-making capacity of the industry will be 94.3% of capacity for the week beginning May 10, 1948, an increase of 3.3 points, or 3.6%. This compares with 91.0% last week. A month ago the indicated rate was 71.3%.

This week's operating rate is equivalent to 1,699,700 tons of steel ingots and castings as against 1,640,300 tons last week, 1,285,000 tons a month ago, 1,648,400 tons, or 94.2% of the old capacity one year ago and 1,281,210 tons for the average week in 1940, the highest prewar year.

ELECTRIC PRODUCTION SHOWS FURTHER SLIGHT RISE

The amount of electrical energy distributed by the electric light and power industry for the week ended May 8, was 5,087,264,000 kwh., according to the Edison Electric Institute. This was an increase of 44,912,000 kwh. over the preceding week and was the highest production since the week ended March 20, 1948. It also exceeded the output for the corresponding week last year by 434,127,000 kwh., or 9.3%, and was the 18th consecutive week that production exceeded the 5,000,000,000 kwh. mark. The peak was reached in the Jan. 24, 1948 week when 5,436,430,000 kwh. were turned out.

AUTO OUTPUT ADVERSELY AFFECTED BY GENRAL MOTORS AND CHRYSLER CAR ASSEMBLY CUTS

As a result of curtailed passenger car assemblies by General Motors and Chrysler, production of cars and trucks in the United States and Canada dropped last week to an estimated 85,345 units from 102,967 (revised) units the previous week, according to "Ward's Automotive Reports."

Output a year ago was 93,369 units and, in the like week of 1941, it was 132,380 units.

This week's total is made up of 51,454 cars and 29,146 trucks for the U. S. and 2,750 cars and 1,995 trucks for Canada.

BUSINESS FAILURES CONTINUE SLIGHT UPWARD TREND

Again rising slightly, commercial and industrial failures in the week ending May 6 numbered 108, the highest level since the first week in March, reports Dun & Bradstreet, Inc. This compared with 106 in the preceding week and 98 in the comparable week of 1947.

While still about five times as heavy as in 1946, casualties this week claimed only a third as many as in pre-war 1939 when over 300 failed in the same week of that year.

The increase last week was concentrated in small failures with liabilities under $5,000 which rose from 10 to 19. Larger failures involving losses of $5,000 or more continued to predominate despite a decline from 96 to 89; they remained above the 81 reported in the corresponding week a year ago.

FOOD PRICE INDEX RISES TO HIGHEST LEVEL IN THREE MONTHS

A general upward movement in food prices last week carried the Dun & Bradstreet wholesale food price index for May 4 to $6.88. This represents a weekly gain of 12 cents, or 1.8% over the previous figure of $6.76, and it is the highest level for this index since February 3 when it stood at $7.14. On the corresponding date a year ago it registered $6.00.

COMMODITY PRICE INDEX MAKES MILD ADVANCE FOR WEEK

After holding steady during most of the week, the Dun & Bradstreet daily wholesale commodity price index moved irregularly to close at 283.00 on May 4. This compared with 281.01 a week previous, and with 253.39 on the like date a year ago.

Grain markets were generally firmer last week as the threat of a railroad strike which would tend to restrict the movement of cash grains to the markets aided in holding prices up.

Early advances in wheat also reflected increases in parity prices as of April 15 and light country offerings. In the closing sessions prices were irregular and easier as the result of forecasts for rain in the southwestern Winter wheat areas. The government continued to purchase wheat and flour in substantial amounts. Domestic flour buying showed some improvement but purchases were mostly of small lots. Corn showed considerable strength at times with good demand from the East a factor.

Plowing for corn was active and new planting is expected to become general by the end of this week providing weather conditions are favorable.

Lard demand was only fair with prices irregularly lower. Lard stocks increased substantially during April. Livestock markets were featured by a further sharp decline in hog values. Steers were firmer and lambs remained steady. Raw sugar prices fell 15 cents a hundred pounds during the week but displayed a firmer tone at the close.

Domestic cotton markets were irregular with prices moving sharply lower at the close.

An upward trend in the fore part of the week reflected good mill demand and the expectation of increased buying under the foreign aid program. However, continued delays in ECA buying resulted in heavy selling and prices declined sharply. Other influences in the downward movement were rumors of some cancellations of recent sales of cotton to China and reports of good planting conditions throughout most of the belt. The mid-April parity price for cotton, issued by the Department of Agriculture on Friday of the previous week, showed a rise of 25 points over that for mid-March. At 30.88 cents a pound, it compared with 30.63 a month previous, and a revised figure of 28.40 cents for mid-April last year. Registrations under the sales for export program during the week ended April 30 fell to 8,576 bales, compared with 43,500 the week before. This brought net registrations for the season to date to 827,910 bales.

Activity in cotton textiles was only fair last week as buyers showed an increasing tendency to seek undercuts in mill prices.

Trading in the Boston raw wool market continued quiet mainly due to a lack of offerings of fine and half-blood staple wools. There was little interest shown in medium and lower grade wools. In the Western growing States, reports indicated that the finer wools were being purchased as rapidly as shorn. Foreign wool markets continued strong with active bidding reported from United States buyers.

RETAIL AND WHOLESALE TRADE MODERATELY ABOVE PREVIOUS WEEK AND LIKE PERIOD OF 1947

Generally milder weather in most sections of the country helped boost retail trade during the past week. Total retail dollar volume for the period ended on Wednesday of last week was moderately above that of the previous week with over-all retail activity slightly above that of the corresponding period in 1947, states Dun & Bradstreet, Inc., in its review of trade for the past week.

Consumers tended to be selective in their buying, and attention was directed toward medium-priced articles in almost all lines. Clearances and promotions were not as numerous as in recent weeks.

Showings of Spring and Summer apparel attracted many shoppers. Women's linen dresses, sun-back frocks, blouses and lingerie were well accepted.

The demand for men's suits rose considerably from the level of the previous week and in most areas was reported to be well above that of a year ago.

Lightweight suits of gabardine and tropical worsted were most frequently requested. Men's sport jackets, slacks and Summer hats received considerable attention.

Retail food volume continued at the high level of the previous week. The demand for fresh fruits and vegetables, which were in plentiful supply, showed a moderate increase for the week. Meat supplies were also adequate in most areas despite the continuance of the partial walkout in the meat packing industry. Poultry and dairy products, too, sold well.

Spring items such as garden tools, lawn and flower seeds and lawn furniture were frequently requested. The demand for paints and hardware increased perceptibly. Retail sales of automobile accessories were up slightly with garages and service stations reporting increases in the sale of oils, grease and fuel. Slip covers, drapes and curtains moved well and most major household appliances continued to be in heavy demand.

Retail volume for the country in the period ended on Wednesday of last week was estimated to be from 7 to 11% above that of a year ago. Regional estimates exceeded those of a year ago by the following percentages: New England and the Middle West 6 to 10, South 7 to 11, East and Southwest 8 to 12, Northwest 9 to 13 and Pacific Coast 5 to 9.

New order volume last week increased slightly and was moderately above that of a year ago. Many buyers continued to avoid commitments for long-term deliveries and numerous orders for Summer merchandise were placed.

While collections remained slightly slower than during 1947, they were considerably more prompt than in many pre-war years.

Department store sales on a countrywide basis, as taken from the Federal Reserve Board's index for the week ended May 1, 1948, increased by 8% from the like period of last year. This compared with an increase of 11% in the preceding week. For the four weeks ended May 1, 1948, sales increased by 10% and for the year to date by 6%.

Here in New York retail trade suffered from the inclement weather the past week and percentage-wise, reflected a reduction in the gain over the like period of 1947.

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period to May 1, 1948, increased 8% above the same period last year. This compared with an increase of 10% in the preceding week. For the four weeks ended May 1, 1948, sales increased by 8%, and for the year to date by 5%.

Toward a Stable Economy

(Continued from page 13)

the state becomes the dominant employer the "right to squawk" is endangered. Hence, while I do not believe that private employment always guarantees personal freedom, I would not regard a community in which the state is the principal employer as providing "satisfactory employment."

Neither do I regard the state of employment in the United States right now as satisfactory, even though we have very high employment. Far too many people with fixed incomes (including me) are getting squeezed. Also I do not like to see so many people and organizations receiving rewards (on the high side) all out of proportion to their performance. I have in mind salesmen who continue to get paid though they make little or no sales effort. I also have in mind farmers who have watched the money roll in in fabulous waves. Mindful of the many years when it did not, that has not bothered me so much. In a somewhat different dimension I have in mind labor leaders who, perceiving the terrible hunger for goods, made me and my fellow citizens jump through the hoop and back again.

"Inflation-Falls"

As is usually the case with the most important and interesting statistics, no figures are available on the share of the national income which in these ways is now going to individuals and institutions in the form of windfalls, or what might be termed "inflation falls." In the aggregate they may currently constitute as much as $12 to $15 billions annually. In the recent past they have been running at a higher rate.

An economy that is producing a crop of windfalls in anything like this volume obviously isn't working too well. If I were God of economic affairs, one of the first things I would do would be to arrange a sharp, brief shakeout which would reduce the crop of windfalls to reasonable proportions and put our very large complement of freeriders back to work. However, no one has proposed me for that post, and I am really not a candidate.

Not being in a position to be a perfectionist, I would be quite satisfied if, within limits of 10% up or down (now it could only be down), we could stabilize the present volume of employment, with all its imperfections. To do that, I take it, it would be necessary to have things so arranged that:

First: Consumers would have enough purchasing power to take off the products offered to them in the requisite volume to sustain employment, and the will to expend this purchasing power.

Second: Proprietors would have the requisite funds to keep the capital goods industries fully occupied and a disposition to spend these funds.

Emphasis on Consumer Purchasing Power

I think it correct to say that in recent years the preponderance of economic thought, or perhaps I should say political-economic thought, has been focused on the problem of maintaining adequate consumer purchasing power, as opposed to the problem of maintaining purchasing power for new plant and equipment.

This is understandable enough, particularly against the background of mass unemployment of the thirties. Also, there are many more consumers than business proprietors. The political nourishment in concern about consumer purchasing power is enhanced accordingly. In addition, there is some economic plausibility in the proposition that if consumer purchasing power is adequate, the capital goods industries will almost inevitably thrive.

The fact is, however, at any given point in time the problems and processes involved in maintaining an adequate flow of consumer purchasing power and that of maintaining adequate power to purchase new plant and equipment may be and usually are quite different. At a given moment, consumers may be thriving in terms of their ability to purchase, and capital goods industries may be starving, or at any rate starting to starve. They will not have starved very long before their troubles will be communicated to the economy as a whole, and the trouble will be general. Likewise, a sustained deficiency of consumer purchasing power will cut down the capital goods industries before long.

Hence, if employment is to be kept relatively stable a healthy flow of power to purchase both consumer and capital goods must be maintained. This conclusion is so obvious that I might blush to mention it but for the fact that it is so frequently overlooked.

In our economic and statistical operations at McGraw-Hill we have been trying to work out measures which would disclose currently the state of both consumer and capital goods purchasing power. If we could do this satisfactorily I am convinced that we would know a great deal more than is now known about where the economy is bound and what might be done to keep it on a relatively even keel.

It is my impression that in plotting the course of expenditures for new plant and equipment we have made a good start and will be able to do an increasingly effective job. Our survey of "Capital Expansion for 1948 and '49" summarizes what we have done. I have copies with me which I am offering as a free premium with this talk. We are trying to supplement, not compete with, the fine work being done by the Department of Commerce in this field.

In dealing with consumer purchasing power, we have charted its course in the best way we know how. By inviting technical criticisms of our labors we have started a statisticians' and economists' field day.

We have been clubbed with the old and rather musty wheeze that we are simply chasing ourselves around in a circle because what is produced is itself the true measure of consumer purchasing power. We have also received a great deal of keen and helpful criticism of our efforts which we published in "Business Week" for Jan. 31 of this year. We shall bring our calculations up to date shortly. In doing so, I am not being put off by those statistical owls who warn that we can never hope to do a perfect job. My view is that where there is nothing, something a little better than nothing may not be so bad.

Trouble in Capital Goods

Until recently perhaps my most vivid impression was that we would run into serious trouble in sustaining employment in the capital goods industries before we ran into trouble in sustaining adequate consumer purchasing power. This impression was based largely on three things:

First: Our capital goods survey, which indicated that the tremendous postwar expansion plans of American industry—an expansion involving expenditures of about $76.2 billion—would be 85% completed by the end of this year.

Second: The clear prospect that increasingly intense competition would, in many cases, make the present high profits of industry a thing of happy memory. Our inquiries have indicated that manufacturing companies would get about 84% of the money they are using for capital expansion this year from internal sources.

Third: A soggy and apathetic investment market, which must be relied upon increasingly for funds for capital expansion as the postwar bonanza petered out.

Trouble Ahead

These three things seemed to me to add up rather definitely to trouble ahead for the capital goods industries and hence for all of us.

Since then the Federal tax cut has helped to perk up the stock markets a bit. My expectation is that it will go further along that line. The expectation is based upon a considerable amount of inquiry we have made about what people in the upper brackets intend to do with their tax savings. They tell us they intend to invest them in large part in common stocks. If, as our inquiries indicate they might, they also shift their bond holdings to stock holdings in considerable volume, the investment markets can get a lot more spritely. If they do, the possibility of sustaining employment in the capital goods industries, and hence in the economy as a whole, will be much improved. The prospective decline in profits can be offset by funds from the security markets.

Some of you may object that we have been spending too much for capital expansion; that it should be slowed down. I personally think it would have been wiser to defer some of the capital expenditures which have been made. That would have relieved some of the inflationary pressure which has afflicted us. It also would have given us a heavier anchor to windward in a storm. Consequently, I am sure that in its own interest as well as that of the nation, the business community should do a far better job than ever has been done in ironing out the flow of capital expenditures. However, until very recently, our problem was not only that of an uneven flow of capital funds; it was also that of a prospect of an acute shortage.

In the sort of cuts to be made, the tax bill was, as usual, something of a compromise between two extreme positions. At one extreme were those who thought that if any reduction was made it should go exclusively to those at the bottom of the taxpaying heap (I am not concerned right here with that considerable company who thought any tax reduction would be dangerously inflationary.) At the other extreme were those who thought the cut should be concentrated in the upper brackets for the sake of providing some private investment funds, as well as providing greater incentive to acquire them.

On the question of incentives I have no very firm convictions I suspect that a way to get some people to work harder is to keep raising the tax take, while others may get discouraged and go fishing. I find it as hard to generalize here as I do about what makes people happy and contented. The Kinsey Report hasn't simplified that problem for me.

Benefits of Tax Cut

I submit, however, that the tax cut which was made in the upper brackets was essential to the creation of a reasonably good prospect of maintaining a satisfactory level of employment in the capital goods industries and hence in the economy as a whole. I further submit that if we are going to make this capitalistic system work we must make it possible for individuals to acquire a lot more capital than they have been able to acquire in recent years, along with a disposition to devote it to risky enterprises. Something of the same effect can perhaps be secured in part by making it easier for institutions which collect and disperse the savings of small investors to invest in common stocks. However, as I see it, the essence of capitalism will still be lodged in the possibility of having enough individuals able to acquire enough money and able to hold on to enough of it so that they can afford to lose most of it on risky ventures. To the stability of such a system it is equally important, of course, to see to it that there is an impressively good opportunity for newcomers to get into this group by hard and competent work.

Government Investment As Substitute

Of course, if things are not so arranged I do not expect the world to come to an end immediately. I anticipate that there will merely be more government investment in default of adequate private investment, with the process accelerated by depression. That, however, has as its end the dominance of the government as proprietor. As I stated at the outset, I regard even full employment on that basis as unsatisfactory.

Perhaps my concentration on only a few phases of the almost cosmic array of problems before us will give you the feeling that I am ducking some of the main issues. So let me make a few haymaking generalizations about them as a basis for discussion.

Conclusions

Profits—They are too high in some cases and too low in others and a large part of the complaint about high profits is misdirected to industries where they are low Steel is a case in point. Barring war and a new flood of preparations for war, competition will soon take care of most of the problem of excessive profits. Intelligent anti-trust law enforcement would take care of much of the rest.

Wages—In the nature of the case, which includes a deplorable state of labor productivity (for which labor is only partly to blame), a third round of wage increases would (perhaps I should say will) mean another round of industrial price increases or unemployment.

That wouldn't help anyone Better productivity—a great deal better productivity—is a prerequisite of desirable wage increases. How to get higher labor productivity in a full-employment economy which still has the obsolete institutional arrangements of an under-employment economy (union opposition to incentive wage systems, for example), is one of the $64, or now it probably should be $2.064 questions. In the meantime, there is reason to expect that the cost of living squeeze, particularly in the food line, will be eased.

Prices—Many of them are too high, particularly those of some key cost of living items. They are torturing a lot of people with fixed incomes. But they do not seem too high with reference to the total amount of money available to pay them. In any event they are not going down much soon. Food prices should go down some and clothing prices may, but industrial prices won't, and if wage costs go up, many industrial prices will rise, too. There is nothing in the price outlook however, that is a fatal bar to maintaining "satisfactory employment" if, as always seems rather unlikely, we use our heads well.

Now to return to my main line of discussion—if, as you well may you think I have indulged in some factually fragile observations, I hope you won't merely be prompted to try to match me in that line. I hope that you will throw your energies and influence on the side of enlarging the range of fact.

Even if we had all the facts, there would, of course, still be conflicts of interest to settle. But we wouldn't be in the miserable shape we are in in dealing with the central domestic issue of our time, and, no doubt, that of our grandchildren—the proper distribution of the national income.

The Council of Economic Advisers is doing useful work in providing better information. So is the Federal Reserve Board with its surveys of liquid assets. More power to them! But the fact remains that as we meet here, we don't know with any degree of precision how the national income is being divided. We don't know who is getting paid how much for doing (or not doing) what. So we operate much in the dark in trying "to discuss fully the essentials for a balance between wages, prices and profits that will maintain satisfactory employment."

As I have intimated, this situation is not without some advantage to one on the spot I occupy at the moment. It provides a broad license for loose generalization. I would really be much happier, however, if the license were revoked, by authority of more facts. That is a job on which you statisticians must play a leading part. I hope that I have tempted you to play it a little more strenuously.

National Gypsum Stock Offered

The National Gypsum Co. is offering to common stockholders of record May 10 the right to subscribe at $13.50 a share to 422,467 additional common shares, in ratio of one new share for each four owned. Rights will expire on May 24. W. E. Hutton & Co. and Blyth & Co., Inc., head a group which will underwrite the offering.

National Gypsum will use the money to increase working capital to meet the requirements of an increasing volume of business. The company, a leading unit in the building materials industry, had $15,388,013 net sales in the first quarter, compared with $11,619,895 a year ago. Net income was $1,521,933, equal after preferred dividends to 84 cents a common share, compared with $1,314,617 and 72 cents a share a year ago.

First Boston Corp., Harris Hall Group Offers Utility Stock

A nation-wide underwriting group headed jointly by The First Boston Corp. and Harris, Hall & Co. (Inc.) publicly offered May 12 800,000 shares of preference stock, 4.56% convertible series, $25 par value, of Southern California Edison Co.

The stock is priced at $26.25 a share, to yield approximately 4.34%. It is convertible into common stock at $28.50+ per share, taking the preference stock at $26.25. The conversion rate is subject to adjustment under certain conditions.

The net proceeds will be used to reimburse the company for certain expenditures heretofore made for the acquisition of property and for construction, extension, improvement of company's facilities.

Gross additions to plant for the calendar years 1948 and 1949 are estimated at approximately $115,000,000.

Randall With Harris, Upham

(Special to THE FINANCIAL CHRONICLE)

CHARLOTTE, N. C.—Ralph E. Randall has become affiliated with Harris, Upham & Co., Johnston Building. He was formerly with Thomson & McKinnon.

What Kind of Money?

(Continued from page 4)

in costs and prices are to be found principally in these figures of the money supply. This maladjusted cost-price boom is the result of a scarcity of goods caused by war destruction, and an inflated supply of paper money. But in spite of the increase in the total production—more than 100% above prewar production, and prices on the average 100% above prewar prices—there is still a vast unused supply of money power available to push costs and prices very much higher.

Time and again I have pointed out that we cannot have prewar prices with postwar dollars. Our dollars of today are just not worth as much as they were before the war and before the New Deal. Are we going to get back to those good old days when you bought a glass of beer for 5 or 10 cents and got a free lunch thrown in; or when you got a first-class steak dinner for a dollar? We are certainly not going to get back to those halcyon days again during your time and mine.

Some people will tell you—who know just how to fix things, according to them—that we can tax the money purchasing power out of existence, or that we can deflate in the same way that we inflated the money purchasing power. This is sheer nonsense. This multiplication of money purchasing power in the form of currency in circulation and bank deposits ready for quick spending in the accounts of individuals has now become entwined with our daily prices, costs, wages, and taxes. As I mentioned before, this inflated money purchasing power is the principal force causing these high prices, costs and taxes. And government's tax take today is more than the whole national income in 1933. This inflation has now become ingrown into our very fiber. To try to remove it by some crude, over-simple economic surgical operation would bring on an economic collapse and chaos in industry, finance, and government monetary policies. It will take a long time to undo what has already been done to inflate our costs and prices. But we should take warning right now, stop here, and prevent any further inflation.

Rearmament Without Inflation And Without Dictatorship

If we are to rearm and be prepared for World War III, if and when it comes, we need manpower, raw materials, increased production—to supply our own domestic needs, the needs of our allies, and the armament program. This is a challenge to all of us to return to work and cooperate as we did to win the last war. In my opinion, the unnecessary inflation and spending spree were handicaps in the progress of the last war. Did we not learn that preparation for war and the prosecuting of a war take work, materials, and cooperative efforts to get the job done, and done well? The printing of paper money distorts costs and prices and disturbs the orderly operations of production during war as well as during peace. Paper money is neither wealth or war materials for a nation; we now have too much paper money. The way to prepare for the next war is to return to work—full-time work, with efficient management and effort. It will take the cooperation of every one to hold down prices and costs—produce the needed peacetime supplies and at the same time develop our needed military preparedness program. It is just as essential that we keep economically strong as it is that we be able to carry out our military objectives. In fact, I doubt if any other force will so quickly undermine our military strength as the economic disturbances resulting from inflation that could bring upon us financial chaos.

I do not believe price fixing, regimentation, and government controls will result in the efficiency necessary to carry out concurrently a military preparedness program and meet our large peacetime needs for production, and our foreign commitments. I do believe this program can be carried out best under free markets if we will cooperate and hold down prices and costs. Let us be thrifty, and apply the lessons we have learned, that materials and work, together with the maximum of efficient effort, will provide us with the products we need, and leave us free to live our own democratic lives. If our businessmen, bankers, labor organizations, and the government are not willing to cooperate to accomplish these patriotic ends for the good of our own country and to prove the merits of our own democratic way of life, then we are headed for a bad end. I for one refuse to believe that. With a unified purpose, and leadership, the American people will rise to the occasion and double our present production if necessary.

The Necessity of Free Markets

Surely, then, we can also face the realties of prices, and I know of no better place to begin exploring these realities and facing them than in Chicago, because here, I again repeat, you have the practical example in the wheat pit, the meat markets, in the great merchandising stores, and in the mail-order houses; great practical laboratories where there are assembled the practical experts on price, the experts on the law of supply and demand and the fluctuations in price that arise from fluctuating values in the currency and the entire medium of exchange.

If we are really going to settle down and do anything about inflation, it is high time for our government officials, our economists, our businessmen, financiers, industrialists, farmers and publicists to study the price system. They will then realize what a tremendous contribution a free price system and free markets can make to the success of an economic scheme. If we are to continue with our American capitalistic scheme of things, we have got to inform ourselves better about the factors in price, and what causes price fluctuations.

Or, to put it another way: We have got to abandon statism and the presumption that fixed or pegged prices make any kind of a contribution to the economic scheme.

Likewise, we must shun short-term readjustments in our economy, which serve only to render our course erratic. The basic principles of freedom, rather than some temporary and arbitrary control, should govern our economic as well as our political thinking. Freedom of worship, freedom of speech, freedom to come and go as we please—by all means. But also freedom to grow what we will, manufacture what we will, trade as we please—these, too, are vital to our national health. Free markets, where gold is simply another commodity to be bought and sold, can do more to stabilize our economy and halt inflation than all the bureaucratic meddling in the world! That freedom is part of our heritage—let us claim it before we forget what we have lost.

During the past 20 years, the various governments throughout the world, including our own, have broken all the rules of the game for the use of paper money and gold as media of exchange. We find ourselves, therefore, here and throughout the international field, without these useful instruments with which to reconstruct the production and distribution of the world. There is no use talking seriously about economic recovery and halting inflation unless we are ready to step up to a return of honest money. Honest money means that we must abandon the Keynesian theories, the so-called managed currencies, and pegged and dishonest rates for the international exchange of currencies and gold.

We must set up free markets for the conversion of any country's paper money into the paper money of any other country at exchange rates arrived at in open auction markets. Further, as the opening step in the process of stabilizing paper money in terms of gold and returning to the gold standard, we must set up free markets for the conversion of paper money into gold at prices for paper money vis-a-vis gold arrived at in open auction markets.

Conclusion

To sum up my remarks on honest money, I want to make this statement with all the emphasis at my command:

It is futile for us to continue to discuss rising or inflated prices only in terms of the law of supply and demand for the commodities themselves. It is about time for us to stop making the assertions that high prices are caused only by high profits and high wages. It is about time for us to examine the fiscal policies of our government because I am quite convinced that our price level is more a result of our loose fiscal policy and our devalued money than it is of the factors of profits and wages.

A return to honest monetary practices would have more effect on halting inflation, on the economic life of our country as expressed in production and distribution, than any of the slick adjustments in our national fiscal policy under discussion at the present time.

To put it another way: The world is eager and ready to go to work. Labor and tools are available. The management skill is available for planning and putting into operation the production and distribution schemes needed to provide plenty for everybody in America and needed to feed and clothe the people of Europe and the rest of the world we are determined to help. But we need honest money to finance the production facilities and we need honest money to serve again in the field of distribution as a means for facilitating the exchange of goods. We need honest money to save us from inflation; we need honest money to save us from the tragic consequence of inflation.

After all, the American nation is an entity, and it lives but one life, has but one future. We are all too prone to consider "economic necessity" and "political expediency" as entities in themselves. They are not; they can only be considered as phases of our common experience. In our plea for honest money, for free markets, for realistic prices then, we must strive always for the economic solution that will contribute to the fulfillment of the destiny of America—the destiny of political and economic liberty.

National Planning Won't Work

(Continued from page 7)

Parliament told me within the month that farmers are not producing food as they should in England, that the output is falling far below plans and that there is nothing that the Labor government planners can do about it. He said that under the impetus of wartime patriotism, food production was thousands of tons greater than it is today, despite Britain's extremity. He admitted that if the farmers continue to sit, that the Labor government is bound to fall and, he said, there's not a ". . . thing we can do about it because the English will not stand for force." Mind you, this was a veteran Labor member of Parliament speaking!

On paper, planning is a wonderful thing. A great case can be made out for it. But, the records show that in human affairs inclination is the controlling force. As individuals we do not do the things that are best for us. Some of us eat too much, although all doctors guarantee that overweight will kill you. Most everyone smokes, although responsible scientists have never claimed that smoking is beneficial. Still others imbibe too much of the product which has made my home state of Kentucky famous, even though they know better. To assume that we do the things that are best for us is truly unrealistic. We do the things that we want to do and often our reasons are twisted and of little real significance.

The assumption that *homo economicus* is rational is the greatest canard ever perpetrated in the name of a so-called science. The Americans, particularly, depart far from that basic precept of economics. The American saves when he should spend; and he knows better. He spends when he should save; and he knows better. He is a law unto himself, utterly individualistic and hating the very idea of even the simplest regimentation.

So I say to you, that even if planning might work in another country, it would not work in these United States because of our fierce individualism. We are so individualistic in our attitude towards authority (other than our criminal statutes) that we are like the Irishman of whom it was said that the moment he got off the boat in this country he asked, "What is the government here?" A friend said, "What difference does it make?" He answered, "I've got to know, I want to be ag'in' it."

Then, too, there is an occupational hazard which gradually overpowers all the bureaucrats I have ever known or read about. I refer to the fact that the so-called "public servant" is, under our governmental budgeting setup, unfortunately, judged by his spending and not by his saving. It is amazing how they can rationalize and justify what they want to do. One day I said to one of our professors, one of the most famous experts on public finance in the country—and this actually happened—"Can't you ever conceive of the possibility that public finance should also concern itself with controlling expenditures? My God, don't you ever think of anything other than how to devise a new tax?"

Let me give you just one sample of the willingness of bureaucracy to spend. Here in this city, within the month, an official speaking at an industrial mobilization meeting blandly announced that 54% of the machine tools of the United States were obsolete and should be replaced. Consider for a moment, if you will, the economic consequence of such a policy. Doubtless, in most instances we could get more modern machines; but to say that 54% of our machine tools should be replaced is a negation of the waste-not, want-not philosophy which gave this country those selfsame machine tools in greater measure than in any other country in the world!

Inflation

Since V-J Day the greatest threat to this country and its democratic institutions has been inflation. What does the record show as to the assistance given by national policy in meeting this terrible danger confronting our economic, yes, political, safety?

With farm prices more than 200% higher than before the war, farmers have continued to demand subsidies, and price floors, and no ceiling on their products. Did the national representatives of all the people talk to the farmers in terms of "sweet reasonableness" and convince them that a return to the more normal prices was desirable as it was the national policy to combat inflation? No! They got in and helped them put prices up!

With food prices driving wages higher, and with wages driving prices of manufactured goods higher, and ever higher, on the inflation spiral, did the representatives of all the people have a heart-to-heart talk with that small segment of the population known as organized labor and ask them to support the nationl policy of combating inflation by foregoing further wage increases? No! By statistics, statements, speeches, and every method possible, they assisted union labor in their battle for higher wages!

With the Federal Reserve Board requesting legislation to prevent a dangerous expansion of installment selling, an expansion which is highly inflationary in times of commodity shortages, did the Congress cooperate? No!

With the inflationary threat getting greater day by day, did the Congress reduce the public debt and thereby take a position against inflation, or did it reduce taxes, thereby further increasing purchasing power? The less said about that, the better.

With rearmament promising another turn on the inflation corkscrew, has anything been done by the national leadership to offset this new danger? Do you think anything will be done?

The former Chairman of the Federal Reserve Board, our chief monetary authority, with the unanimous backing of the Board, went before the Congress on several occasions and asked for new legislation to control the forces of inflation now being generated, and what happened? The Congress ignored the recommendations, the Secretary of the Treasury announced that he has not heard of the plans, and the President publicly repudiated the ecommendations and demoted the author to a promised vice-chairmanship of the Board—and now it looks as if the vice-chairmanship may not be forthcoming! Would you call it unconscious humor if I inquired as to what "national policy" is being followed here?

You know what "national policy" is being followed in all these cases—and I damn the Republicans and Democrats with equal fervor—the "national policy" of getting reelected is the controlling one and it is the only one that will interest our politicians until November, and we might as well recognize the fact. Until that millenium arrives when all politicians will be statesmen, and all statesmen will be economic statesmen, we can expect no other result.

I submit, that if the opponents of planning had been given the powers of Deity to stage a demonstration of the impossibility of planning at the national level in our free-wheeling democracy, they could not have devised a more convincing object lesson than has been given us since V-J Day, shall I say, **unconsciously?**

This brings me to my final conclusion:

Even if successful planning could be done at the national level, which I deny; even if planning from above were desirable, which I dispute: we still have the problem that there is no way whereby planning could be divorced from political expediency. This last factor alone, I submit, is the "kiss of death." Need more be said?

Can We Win the Peace With a 40-Week?

(Continued from page 14)

misstatements do not change the facts.

I am personally sure that, if the workmen of our country were all persuaded that if they worked the longer hours they would actually have more, they would be for it. Ever since the war there has been pressure for more than 40 hours pay in the building trades. In many of our plant cities our contractors could not hire construction workers unless they promised them more than 40 hours work, or the equivalent pay if they were not given the extra work.

There has been a very interesting development going on in the city of Saginaw, Michigan, where workmen have banded together and are building their own homes in extra hours beyond the eight hours per day which they work in our plants. This indicates very clearly that the average American workman would like to work more and have more. It would be so much easier to schedule five more hours of work at his regular job than to force him to scurry around and find a second job that will allow him to earn extra money.

Psychological Factor

Many labor leaders and labor politicians act and talk as if the 40-hour week were fundamental. They try to make the point that there is nothing in the present law to keep employers from supplying more than 40 hours work to their employees, but they insist that the base of 40 hours must not be changed. Actually the implication of a 40-hour Federal law is that 40 hours is all that anyone should work. This is quite important psychologically and is gradually having its effect not only on industrial workers but on farm labor and other occupations not covered by the 40-hour law.

Furthermore, putting a 50% penalty on the extra hours carries an accounted cost for such extra hours that is so excessive that many employers do not believe that it is profitable to work such extra hours at such a cost. This country was built up by men and women who believed in work and were willing to work for the things they would like to have. As a matter of fact there is nothing fundamental about any fixed number of hours of work per week —40, 30, or 60. The real question is: Does the average American citizen need more time to enjoy and spend the fruits of his labor or does he need more goods and services to enjoy the leisure time he now has? That is the real measure of the problem.

While taxes are so excessive and such a big part of the national income must go into the Federal budget, and while threatening war clouds still hang over the world, I am sure that working more than 40 hours per week is the only real solution to the problem of wages and inflation. It is the only way to increase the real purchasing power of take-home pay of workmen. Raising wage rates per hour causes increases in unit costs which result in self-defeating price increases. It is the only way to restore the balance in purchasing power between urban workmen and farmers without reducing the prices of farm products and jeopardizing the high level of food production when food is so badly needed not only in our own country but all over the world.

Phoney Forecast

Any real consideration at the end of the war of this solution for the inflation problem has been blocked by the same false prophets who were predicting serious unemployment immediately following the war. At that time they used this phoney forecast to justify an immediate change in the work week from the 48 hours worked during the war emergency to the 40 hours worked before the war. They even stated that the real problem of Americans was to immediately learn to live 50% better while working less. They still follow the false philosophy that prolonged the depression; namely, prosperity through scarcity.

This was a fantastic and neurotic appraisal of the situation and not a realistic one. Such labor politicians refuse to recognize the fact that the war could not mean immediate prosperity even for the victors that war damage and delayed maintenance would have to be made up; that we can only consume more if we produce more, and that increased production through technological improvement takes time—years, not months.

During this immediate postwar period with its world problems, government itself should not promote an artificially short work week, and at the same time press for continuing high costs of government, including expensive foreign relief. Political leaders who argue for the maintenance of an artificially low working week and at the same time demand that the cost of government be kept at a level many times higher than the highest prewar level and approaching one-half of war-time costs, are promoting a lower standard of living and more inflation, whether they realize it or not. When total taxes in all forms exceed 25% of the national income it means that the average American working 40 hours a week is working more than 10 hours for the government and less than 30 hours for himself and his family. And this is true no matter how the taxes are collected that make possible these enormous government expenditures.

Some people argue that since the production of pig iron and steel is the limiting factor in much industrial production, nothing would be gained by working factories more than 40 hours. However, the pipelines were about filled up and the steel production had been increasing month by month until the current coal strike. It is a reasonable forecast that, if there had been no strikes and work stoppages, there would have been sufficient material to keep a normal number of workmen employed in industry on a 45-hour week, if a normal number of people had also continued at their jobs in other occupations.

Monopoly Strikes Disastrous

Of course it is useless to plan for a 45-hour week or even a 40-hour week if monopoly strikes in basic industries like the recent coal strike are tolerated. As a nation we can no longer afford the extravagance of such monopoly strikes.

I am not advocating a longer workweek for an indefinite period of time. Perhaps it would clarify the problem to limit the time of such extended workweek to the 5-year period of the European Recovery Program and at the end of that time return to the 40-hour week. Perhaps if union leaders could be persuaded it would work out this way they would look at the matter more realistically.

Workmen Must Be Enlightened

The corollary to the false philosophy of prosperity through scarcity was that workmen could be paid more money for producing less and not have the purchasing power of their money depreciate. This false philosophy has been preached so many years by those high in authority that workmen are now fearful that if they worked longer hours they would not actually have more purchasing power. When a farmer plants 45 acres in crops in place of 40 acres he confidently expects to harvest more grain. If workmen could be equally confident of the fact that if they worked longer they would not only receive more money but that their money would buy them more goods and services, in most cases they would be willing to work the longer workweek.

There is another fallacy prevalent in some circles which perhaps accounts for some of the opposition to longer working hours. The people who follow such unsound thinking represent that they fear over-production. They talk about the depression of the early 30's. They say that the lack of consumer purchasing power and the excess profits of industry in the late 20's were responsible for the depression of the 30's. I remember the period too well. My observation and belief is that the depression of the early 30's was due to debt and speculation and to an unsound foreign policy. In the late 20's millions of people speculated in the stock market on very small margins. They speculated in Florida real estate, in farm lands and in all kinds of ways.

They contracted debts, and the high rate of industrial activity in the late 20's was overstimulated by the excess purchasing power caused by speculation and debt, just as the war debt has created excess purchasing power and unbalanced supply and demand at the present time. There should be no fear of over-production of goods and services in a free market but only of a boom financed by unsound credit.

To sum up:

I am not advocating a step backward for labor. I am advocating a plan which would increase the standard of living of workmen generally.

I am not advocating a plan that would reduce the compensation workmen are now receiving for 45 hours. I am advocating a plan that would effectively increase their take-home pay and their purchasing power since the plan should not cause higher prices.

I am not advocating more work for the same pay. I am advocating more pay for more work.

I am not advocating a plan that would promote inflation. I am advocating a plan that would stop inflation since increased production would be available to match the increased purchasing power.

I am not advocating a plan that would underwrite a future depression. I am advocating a plan that should prevent serious inflation and thus avoid a later depression.

I am not advocating a plan that would interfere with our country's defense and world reconstruction policies. I am advocating a plan that will avoid the danger of "Too little, too late."

We must win the peace.

How to Fight the Reds

(Continued from page 17)

not try to make the Russian nation fight in Europe unless its leaders genuinely thought that we were planning to attack Russia from Western Europe as a base. War is not the Party's preferred method, and even if it were it could not wholly disregard the sentiment of the Russian people. Both Lenin and Stalin have emphasized that the dictatorship of the proletariat must "seek to express what the people are conscious of." Dread of war is at the top of the consciousness of the Russian people. They suffered horribly from the last war and those who survived want no repetition. Undoubtedly the Russian people could be brought to fight again if it seemed that the provocation were great and it is somewhat ominous that the Communist Party is doing all it can to portray our military preparation, particularly in relation to bases and atomic bombs, as portending attack on Russia. But, as matters now stand, the Communist Party would no doubt hesitate to launch the Russian nation into an offensive campaign for the military conquest of Europe. There is, perhaps, slightly greater risk in the Near East which is the only area where Russia's traditional ambitions are not by now fully realized.

We cannot exclude the possibility that Russia might become a military enemy. But that is as yet only a possibility, and by careful conduct we can do much to prevent that possibility from becoming an actuality.

The Communist Party an Actual Menace

As against that possibility, we have a reality. The Communist Party has already declared us its enemy and is waging against us a campaign in which it has won great victories. For the first time since the threat of Islam a thousand years ago, western civilization is on the defensive. The Communist Party controls governments that, in turn, control about five hundred million people of 15 different nations. It inflicts upon the four hundred million of China civil war which makes orderly government impossible. It has gravely embarrassed the governments of France and Italy. It has well-organized parties throughout South America. It foments revolution in all the colonial areas. In every country in the world the Party can exert a seriously disturbing influence whenever it judges the moment opportune. That applies even to the United States. There is already here considerable infiltration into labor unions and the political party fronted by Wallace could mark the beginning here of communist political harassment which is one of the means whereby the Party discredits free governments.

There have been some good developments. The general strike in France did not cause a collapse there of democratic government and the communists and their allies did not win the recent Italian election. But those events do not prove that the communist tide is permanently receding. The French general strike of last winter was never an all-out bid for power, but rather an harassing and probing operation. The same is probably true of the communist election campaign in Italy. Stalin has often said that the Party will never come into power through majority vote under so-called bourgeois institutions. It is first necessary, he says, to smash these institutions and demonstrate their bankruptcy and then seize power as a minority. In the case of western Europe, communist strategy is still only in the phase of seeking to discredit the existing free institutions. Their hour to strike for power is not yet arrived, according to their own time table.

The communist menace remains serious and calls for the best counter-measures that can be devised.

What should those measures be?

We are doing some of the things that ought to be done, but some of them are left undone.

Our Need for Military Strength

We are developing military strength to offset that of Russia. If we have to use that strength, it will be a sad day for freedom, which has barely survived the first two World Wars. But so long as the Communist Party has in reserve the potential of the Russian army, so long as the United Nations is without military power, for so long the free societies ought to have a coordinated military potential of their own comparable to that of Russia. Unless they have that, some peoples will let the Communist Party take over merely because they fear that otherwise the Party will use the Russian army against them. The United States will have to assume the major burden of allaying that fear. But we must be careful not to think of military defense as complete defense. There is danger of that, because that is the conventional way to think and because our existing military set-up is a powerful vested interest. Against the new form of subversive warfare, armament is as obsolete as was the Maginot Line.

Our military power may prevent the Communist Party from using the specter of Russian might to bluff its way to cheap victories. But armament will not offset the methods which have won communism growing power, not only where Russian armies were near but where those armies were far away.

The Need for Economic Aid

We are acting to end in western Europe the economic misery upon which communism thrives. The European Recovery Program is the product of fine statesmanship. Already it has revived hope in people who know and love freedom and who want to keep freedom so long as it offers hope. Under that impulse the people of western Europe, with their African dependencies, are moving toward unity. If unity comes, strength and vigor will replace feebleness and the Communist Party will face a task far more difficult than that of discrediting, one by one, 16 separate and weak governments.

It is worth our while to make a big effort to create in western Europe a united and vigorous economy. But we cannot place our whole reliance on that formula. The European Recovery Program, standing alone, may not succeed because communist tactics may pull down faster than we can build up. Monkey wrenches which cost little can wreck expensive machines. When in France last winter I saw the communist-called general strike setting back French recovery to the tune of hundreds of millions of dollars. Communist Party penetration has gone so far that, if it is unchecked, it can perhaps, by spending one dollar to our thousand dollars, nullify our economic aid. Any such ratio is hard to bear, and our resources are not unlimited.

Also, there are many areas where economic aid will not stop communism at all because it would merely keep people alive on a pitiful dole. That may be humanitarian, but to keep people alive, without hope or self-respect, is merely to provide recruits for communism. So, while foreign economic aid is an important element in our defense, it is no more all-sufficient than is a military establishment.

The Need to Combat the Party's Warfare

We need an organization to contest with the Communist Party at the level where that Party is working and winning its victories. If a house is menaced by the inroad of mice, wise men do not burn it down to get rid of the mice; or go on expending big sums to keep in repair what is being gnawed away. They get a cat. We can learn from that example. It is not necessary to burn up the world with atomic war; it is not necessary to keep pouring out billions to repair the damage of sabotage; it is necessary to catch, by exposure, those who are gnawing away the foundations of the free societies.

The Communist Party uses three main techniques:

By secretly introducing trained agents into key positions in labor unions or political parties, it gets vantage points from which to discredit free institutions by strikes, sabotage and parliamentary interference.

By intensive radio and press coverage, it whips up discontent with what is, and pictures its own system as the one that will give all the dissatisfied all that they want. In aid of its propaganda it makes effective use of paper supplies it controls.

By ruthlessly suppressing opponents who come within its power, it terrorizes many opponents elsewhere so that they become mute lest they hereafter incur a like fate.

The Party has schools which teach these techniques to recruits from all over the world. These schools rank in quality with our West Point and Annapolis.

Seldom, if ever, has the world witnessed a more formidable campaign. But because it is that of a Party, not a State, because the weapons are not battleships and bombers, and because it operates against individuals, not states, there is no organization to meet it. Individuals who want freedom are left to resist, as best they can, an international band of fanatics, possessed of ample resources, ably directed, accepting iron discipline, exalted by great successes, and using methods which diabolically outrage the human personality.

It is not right that individuals should be left without protection devised to meet that type of assault.

The United Nations and Human Rights

Individuals are entitled to look to the United Nations for protection. It was created not merely to protect State against State, but to protect individuals. The Preamble of the Charter recites the determination of the peoples "to reaffirm faith in fundamental human rights, in the dignity and worth of the human person and . . . to practice tolerance." Article 55 of the Charter calls for "universal respect for, and observance of, human rights and fundamental freedoms," and Article 56 pledges all members "to take joint and separate action in cooperation with the Organization for the achievement of the purposes set forth in Article 55."

Three years have gone by since that pledge was made. Those three years have been marked by the most highly organized and widespread campaign against human rights and fundamental freedoms the world has ever known. Last winter a committee of the Economic and Social Council drew up a draft Declaration and Convention on Human Rights, but action as called for by Article 56, is not yet in sight.

Many have now lost interest in the United Nations because, they say, it is made impotent by the veto power in the Security Council. But the Charter not only authorizes, it requires, action in defense of human rights and fundamental freedoms. Furthermore, since such action would not be under the Security Council, there could be no veto. Here is an opportunity to see what a vetoless world organization can do to stop aggression against human rights.

A U. S. Organization to Defend Freedom

Pending effective action by the United Nations, our people ought to act for themselves. We are the main target of the subversive war now being waged by the Communist Party. Mr. Molotov and Mr. Zhdanov have proclaimed that. The Party strategy seeks, as its climax, the encirclement of the United States and the dispatch of our free institutions.

To that formidable effort, we are reacting only feebly and in a haphazard manner. As an adjunct to one governmental department, there is a "Voice of America" whose short-wave lispings are scarcely heard above the flood of communist propaganda. It is hard to find anyone on the Continent of Europe who does not accept the communist version of the United States as an aggressive, imperialistic power, seeking political domination of other peoples in an effort to get new markets to bolster up a capitalistic economy that has outlived its usefulness.

As an adjunct to another department there is the F.B.I. which, among other tasks, checks on domestic disloyalties.

Another adjunct is an intelligence unit, designed to serve several departments, which is in the throes of postwar experimentation.

The sum total of these three unrelated and subordinated efforts contrasts pitfully with what is marshalled against us.

Today, nothing is more important for our defense and for ultimate peace than to demonstrate a capacity, alone or with other free societies, to stop the processes of communist encirclement. Unless we can do that, there will be an ever-tightening noose around our neck and in the end we shall have to fight for living breath, although that would be a desperate expedient, for free institutions seldom get respiration out of war.

We ought to have an organization dedicated to the task of nonmilitary defense, just as the present Secretary of Defense heads up the organization of military defense. That new department of non-military defense should have adequate personnel and ample funds. When I say "ample funds" I am not thinking in terms of such sums as the $15 billion per annum being spent for military defense or of the $6 billion per annum being spent on foreign economic programs. I am thinking of only a fraction of such sums, although the task ranks with these others in importance. Incidentally, this new effort could use to some extent the currencies which will some to us abroad in exchange for goods sent under the European Recovery Program and to that extent additional cost to the United States would be entirely avoided.

Turning On The Light

A primary task would be the exposure of what is going on. Truth and light are the best weapons of freedom. Communist Party success depends primarily upon concealment. It conceals its connection with foreign agents who are planted throughout the world. It conceals from one people the inconsistent things it says to others. It conceals by its iron curtain the difference between its professions and its accomplishments. The detailed exposure of Soviet activities in Canada, made two years ago, had a tremendous influence within the circle where the findings were known. But the complete record was difficult to obtain; it had only limited circulation and that exposure was an isolated occurrence.

The suggested department, through radio and press, would tell adequately the story of what is happening. It should do this, not merely by short-wave radio, which very few pick up, but by establishing long-range radio facilities at suitable points. It should protect the free press by assuring them the opportunity to get print paper. Paper can be a weapon for freedom and not merely a weapon against it.

Another task might be to provide asylum for those menaced by communist terrorism and to give a future to leaders from countries now over-run by communism. Great leaders like Mikolajczyk of Poland—to mention only one of many—ought to have a chance to go on working for freedom in their countries. So far the forces of freedom have been too ready to quit. Czechoslovakia and Italy make a contrast that does not increase the prestige of the free societies. In Czechoslovakia there were no Russian troops, no Russian economic gifts and the communists were a minority. In Italy, the British and ourselves had troops at Trieste. We had made impressive naval and air demonstrations. We were in a position to do much that Italians wanted in relation to Trieste, the Italian colonies and United Nations membership; and we had given nearly two billion dollars of relief to prevent mass starvation. Yet in Italy communism made a strong fight, whereas in Czechoslovakia the free societies quit cold. I am not blaming those in Czechoslovakia. I am mourning the fact that, as at the time of Munich, they were left alone.

In such ways as I suggest the United States, working in concert with others of like mind, can check communist encirclement and do so without either invoking the desperate expedient of war or engaging in economic transfusions so weakening to us that they will of themselves bring about the collapse of our free society.

Once we have demonstrated a capacity to win the kind of warfare that the Communist Party is waging, then conditions will be ripe for peace.

I am not discouraged at the prospect. We can now see that much that has happened was inevitable. Also we can now see how peace can come. The war left a great vacuum of political, economic and moral power. Of the seven so-called Great Powers, Germany, Japan and Italy were utterly destroyed and France and Britain were gravely weakened. Throughout the world, economic processes were dislocated and there was widespread loss of faith in existing institutions. In each of these areas, Russia or the Soviet Communist Party has moved. They alone were dynamic and prepared. They alone knew what they wanted. But gradually the vacuum is being filled. We are establishing an equilibrium of military power. We are helping Western Europe to establish a political and economic equilbrium with the east. The glaring lack is an organization for stopping the subversive war that is being waged. If, today, we were to ask communist leaders for peace, that would be like asking victorious generals to halt their offensive where it seemed unstopable and when final victory seemed within their grasp. It would be to ask mercy of those who have no mercy.

First we must develop the capacity to check the communist methods of deceitful penetration, fraudulent propaganda and terrorism. That can be done, and I am confident we shall do it. Then a new international balance can be struck. There will still be strains and distresses, but within normal limits; and the balance will be sufficiently tolerable to all so that none will feel it necessary to fight to redress it. Then, at last, genuine peace will be in sight.

How to Revive Our Ailing Capital Market

(Continued from page 2)

public utilities, but as for the other business interests of the country, almost without exception, capital should gradually evolve into preferred and common stock, preferably the latter.

It is not only for the sake of our financial structure, public and private, that I make this point; it is because I am a firm believer in the rights and advantages of ownership on the part of all of our citizens, whether they be well off or of moderate means. There is a certain something by way of better citizenship, that accrues to the nation from the privilege of ownership. That is why it is the duty and responsibility of every public official and of the Congress to safeguard and protect the property rights and rights of ownership if enterprise as we know it is to endure. The payoff is in the pleasure of living in freedom and liberty.

Federal Debt Should Be Privately Owned

We have government agencies —the Interstate Commerce Commission, the Federal Power Commission, the Securities and Exchange Commission, and other agencies of regulation such as the Federal Reserve Board — all of which I think go far enough in certain forms of regulation in the public interest. We are in an enormously expansionary period. We are dealing in astronomical sums. We have no past yardsticks with which to measure the future growth of this country. That is particularly true as we strive to improve the standard of living of our people. We must not harass the investor and place unnecessary obstacles in the path of the free flow of investment funds from one market to another. Our primary interest is the private placement of the Federal debt at a rate of return which the Congress thinks is sound and within the bounds of the budget. Once this is accomplished other parts of the capital and money markets will fall in line.

Our life insurance companies should lend the main support to this task, especially in the case of the long-term government debt. The savings banks likewise should continue to filter their funds to the medium and long-term government indebtedness. Our commercial banking system is the logical chief buyer of short-term government obligations. I want to see a broad active stock market reflecting our preeminent world position. This statement does not imply a rising and falling market. I am not here to predict the course of values. The stock market is the best confidence barometer we have in this country. On the New York Stock Exchange, the largest open free capital market in the world, we have listed today almost 2 billion shares of the preferred and common stocks of 1,133 of our large, mediumsized and relatively small business establishments. These businesses employ millions of people at an investment of from $3,000 to $39,000 per employee.

Opposes Capital Gains Tax as Capital Levy

I am unalterably opposed to a capital levy in the form of the capital gains tax. It is a definite barrier to the fludity of funds. To press the point, income is one thing—it is the earning capacity or power of every individual to make money, either through his personal efforts, by his mind, his hands or his accumulated resources; and beyond that income he must rightfully pay his just taxes to support his government. Once the citizen has paid his just taxes on his current annual income and is able, after paying his honest debts, to lay aside a nickel, that nickel should not be taxed during his lifetime if he is prudent and fortunate enough to double or treble it.

We must follow a policy of encouraging the broadening of the base of wealth of the country from which income springs. Tax the income, not the savings or principal, during the lifetime of the individual. Give him that muchneeded tool to work with, for it is in the interest of every laboring man in this country that we save and that we put our savings to work productively. I want to see the capital gains tax reduced by this Congress in the coming several weeks, should the Congress enact a second tax bill, from the maximum rate of 25% to 12½%. I want to see margin requirements, or the privilege of an investor to borrow on the common stocks representing his ownership in American industry, reduced from 75 to 50%, provided the banker or lending agency will give him the 50%. The 75% margin requirement, is really 400%, for today you can only borrow $2,500 on $10,000 of collateral—and it is thoroughly unsound.

For the life of me I cannot understand why it isn't a better practice to have several thousands, in fact, maybe several hundred thousands, owing the banks a billion dollars, if you please, secured by $2 billion of common stock or ownership in American industry than to drive the companies who are ultimately the beneficiaries of the billion dollars into the insurance companies or the banks to borrow. In one case we have a distributed risk, while the other is bound to be more concentrated. In one breath, our Federal Reserve authorities state that the common stock market is the healthiest spot in the country, indicating that our common stocks are worth what they are selling for, and yet with no rhyme or reason, they stipulate that you cannot borrow more than 25% on your collateral at a time when no money to speak of is being borrowed on common stocks.

50% Margin Adequate

If in relaxing the rule to 50%, our people should increase their borrowing rapidly, and if in the opinion of our private bankers and Federal Reserve authorities such borrowing is deemed excessive, we can make the margin 100% again.

These two recommendations which I so heartily endorse will lend liquidity, continuity and orderliness to our markets. They will lend support in periods of weakness and I am confident will invite the sale of securities when they are in short supply or are being bid up in price in a moment of over-enthusiasm.

The capital gains taxes of the Internal Revenue Code are not regarded as revenue-producing features of the tax structure. Although capital gains taxes produced various amounts of income, ranging from $2 million in 1941 to $300-odd million in an active year such as 1945, I do not believe they produced any revenue to speak of in 1947. If the Congress will adopt the 12½% rate instead of 25%, I think the lower rates will actually increase revenues in the coming fiscal year. Certainly we should get behind a proposal that is thoroughly sound in the first place and that in the second place will gain us some revenues at a time when the Federal budget is threatened with being unbalanced.

I am enough of an optimist and enough of a believer in the fundamentals of democracy to hold that lack of understanding of and sympathy with the capital markets and their problems are not on the main road of American thinking but a detour. I am convinced that if our course is just—and this I believe fully and profoundly—we can carry our message successfully to the public and our representatives in government. We can be strong in our cause and vigorous in our efforts because we are in the fortunate position of being able to serve ourselves and our country at the same time.

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

Last week's down signals nullified by action of market in past few days. But don't expect anything but irregularity.

* * *

Last week it looked like a sharp break before the week was over, or at least before the next column was written. That was last week. Now it's different. The down signs of last week have been replaced by up signs of this week. There's nothing I can attribute it to. In fact the more I write about the stock market, the more I know I don't know.

* * *

As this is being pounded out on the Underwood, I can see the market working itself into a corner where a violent move can occur. The trouble is in deciding which way it will go. As I said above, last week I was practically certain the direction would be down. Now, it doesn't show anything.

* * *

There are times, days and weeks when the market doesn't say anything and little that can be interpreted one way or another. This is apparently one of those times.

* * *

Of course there is the railroad labor situation to consider. But by the time you read this you'll know more about it. Apparently the market doesn't seem too concerned about the Government taking over the industry. Nevertheless I don't like the Federal Government stepping in and taking over the rails, despite the optimism this move has generated.

* * *

But leaving all this aside and concentrating on the issues you have, I now suggest the following:

Anaconda bought at 32½, now about 37, has a stop at 35 for a half lot. If broken, buy it back at 32½ or better.

Avco bought at 4½, now at 6½, has an old stop at 5. Getting in and out of a stock at that price has many disadvantages. So disregard the stop. Just hold the stock.

Bethlehem bought at 31, now about 34½, isn't acting too badly. Stop half at 32, buy it back at 31 or better.

Caterpillar bought at 55, now about 64, shows a nice profit. Sell half if it breaks 61, and buy it back at 58 or better.

Douglas bought at 52, now about 65, still holds up okay. Stop half at 61, buy it back at 59 or better.

Dresser bought at 22, now about 28, acts as well as the market. Stop half at 24½ and buy it back at 22 or better.

Lockheed bought at 15, now about 23¼, acts with the group, which itself is doing little at present. Stop half at 21. Buy it again at 18 or better.

G. L. Martin bought at 15, now 20, has a stop for half at 18½. Buy it back at 16.

United Aircraft bought at 15, now 29½, has a stop at 27½. If it breaks that price sell half. Buy it back at 25 or better.

More next Thursday.

—Walter Whyte

[The views expressed in this article do not necessarily at any time coincide with those of the Chronicle. They are presented as those of the author only.]

New Chicago Ex. Members

CHICAGO, ILL.—The Executive Committee of the Chicago Stock Exchange today elected to membership H. Samuel Greenawalt, McNaughton, Greenawalt & Co., Grand Rapids, Michigan; Harry J. Rodger, H. L. Rodger & Bro., Joliet, Illinois; and Leonard J. Paidar, Goodbody & Co., Chicago.

The election of H. Samuel Greenawalt and Harry J. Rodger will add two member firms to the Exchange, making a total of 163. Leonard J. Paidar's membership was a transfer from another partner in the firm of Goodbody & Co.

Phila. Securities Ass'n To Be Guests of Electric Co.

PHILADELPHIA, PA. — The Philadelphia Securities Association will visit Philadelphia Electric Company's new Southwark Station today, May 13. Edward Porter, Vice-President of the company, will be their host.

With Harker & Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—James E. Gibson is now connected with Harker & Co., 210 West Seventh Street, members of the Los Angeles Stock Exchange.

Joins Schwabacher Staff

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF.—Jan Mauritz has joined the staff of Schwabacher & Co., 600 Market Street, members of the New York and San Francisco Stock Exchanges.

Merrill Lynch Co. Adds

LOS ANGELES, CALIF.—William R. Munroe has been added to the staff of Merrill Lynch, Pierce, Fenner & Beane, 523 West Sixth Street.

Capitalization Problems in Real Estate Appraisals

(Continued from page 21)

tuate in the future as they have in the past.

Experience tables would show by what percentage current earnings of the average property of each type would have to be discounted or increased when operating under stipulated conditions to allow for fluctuations that experience shows to have followed such conditions in the past. In other words, they would provide the appraiser with a means of employing experience in a definite manner to arrive at a stabilized amount for capitalization. They would provide the mortgage investor with a guide for negotiating practical amortization schedules.

The New York Life Insurance Company's appraisal research staff has assembled some performance records which have been the basis for a number of retrospective appraisals. Many more records are needed for the production of stabilization factors involving enough experience to warrant reliance in them. In every large city there are competent real estate managers who have kept records showing year-by-year earnings of typical properties as far back as 1920 or earlier. The company is not interested in the identity of the properties or the owners, but it is very anxious to get the annual net income figures before depreciation and mortgage payments with brief physical descriptions of the properties. The yearly earning figures can be on a per unit basis (per room, per square foot or any other unit) in case the holders of the records prefer not to divulge total figures. Each appraiser's cooperation is asked in locating and obtaining such figures. When enough of them are assembled, a compilation of experience tables will be undertaken that will be genuinely helpful.

Economic history shows periods of feast and famine following each other ever since Joseph interpreted Pharoah's dream about seven fat and seven lean cattle. The records do not show the movement of rental property earnings very far back, but such as are available indicate that they must have followed the major peaks and troughs of commercial activity since the first landlord negotiated the first lease. The trend of residential rents in modern history would surely lead to this conclusion. Here are the high and low points in such rentals during the past few decades.

Residential Rents

Low Point	High Point	Interval Years
1861	1872	11
1883	1892	9
1900	1908	8
1914	1924	10
1934	?	?

The individual operating records analyzed to date lead to the following general observations:

(1) The peak in actual value precedes the peak in earnings, and the low point in actual value precedes the low point in earnings by three to four years in most cases. This is because the present worth of each dollar to be earned in the early future is a great deal more than that of each dollar to be earned in the remote future. The trend of earnings in immediate prospect is, therefore, important in the estimate of value, but current earnings can not be rightly capitalized in perpetuity because of the inevitable changes to follow.

(2) Minor fluctuations in earnings occur according to local conditions and to conditions pertinent to the individual property, but sustained upward and downward trends and the major peaks and troughs occur quite concurrently throughout the country and in response to major changes in employment and general business conditions. It is the range of fluctuations from top to bottom, the timing and the duration of these major movements that have the greatest effect on present worth. The records indicate that there are signs by which these major changes can be anticipated.

(3) The proportionate spread in earnings from prosperous to adverse operating conditions is much greater in properties of the luxury type than in those providing rental space for the daily needs of people in moderate circumstances.

(4) Earnings depend on the condition of supply and demand. The condition of supply and demand is in turn affected greatly by employment and general business activity, but the manner in which property earnings respond to changes in these conditions varies according to the type of property. In general, the earnings from office space and some other classes of commercial property decline from top to bottom over a long period, but stage a relatively quick comeback. The intervals from top to bottom and back to the top are comparatively even in regard to earnings of medium rental apartments. Earnings of transient hotel properties respond almost immediately to changes in general business conditions, and the natural assumption is that retail property leased on a percentage basis will perform in much the same manner. Thus it is clear that the calculation of conversion factors for stabilization of earnings to amounts by which present worth can be estimated through straight-line capitalization will entail classification of performance records according to types of property and there will be considerable variation in the factors applicable to the different types.

(5) Anyone who doubts that history repeats itself with regard to the performance of real estate should read the real estate items in the newspapers and magazines of 1920. There was an acute shortage of housing. There was rent control and all kinds of argument about it. There was much concern about the demands of labor for higher and higher wages for doing less and less work. Pressures were boiling applied to provide housing for veterans. Despite the fact that construction costs had reached an all-time high, the greatest building boom in history was predicted, and it was well under way. Office and store rentals had doubled and tripled in the space of two or three years. Some of the large concerns were buying office space for their own use to assure unmolested occupancy. Prices of many of the necessities of life had risen at an alarming rate. In short, the form of the news was the same as now, only the names were different.

(6) Conditions that followed 1920 were perfectly natural. Shortages in buildings and other durable goods resulted in several years of high production, high employment and high wages. Real estate earnings during this period were generally good. Construction and industrial production eventually caught up with demand and their full-speed momentum carried them somewhat beyond the saturation point. They had to take a rest for a few years during which there was unemployment. Real estate earnings dropped to low levels, and the market was glutted with distressed properties. During this period buildings and machinery and equipment wore out or were destroyed or became obsolete. Population changed in number and location. Demands eventually caught up with supply. Shortages developed. Production, employment and wages picked up. Vacancies in real estate were replaced by waiting lists and earnings started their upward swing.

(7) There is no reason to expect anything radically different in the future. The records indicate that the prosperity to depression to prosperity sequence is about as inevitable as that of summer to winter to summer. Think how much worse winter would be if the idea became suddenly fixed that there would never be another winter, and everyone discarded all heating facilities, warm clothing, and winter food. One cannot prevent depressions, but he can provide against them. The worst result of depressions has been that so much of the money thrifty people saved to tide them over such periods was lost by reason of the "prosperity is here to stay" psychology among savings institutions. The record of the mortgage investment business is not good in this regard. It can be greatly improved by simply assuming that the pattern of future earnings will not be substantially different than that of the past.

(8) The time element is so important in the evaluation of an income stream that it must be included as a factor in determining how much discount or increase should be applied to earnings under any given set of operating conditions. In other words, it is not practical to stabilize earnings by simply taking the average income for a period of several years. The approximate time of the prosperous and adverse periods must be included in the calculation as well as the difference between top and bottom performance. Fortunately, the records indicate that these intervals do not vary too greatly to make their anticipation impractical. An error of a couple of years one way or the other as to when the peak and trough will occur does not often affect the answer seriously. The main point is that both peak and trough must be considered and their timing in relation to the date of appraisal must be reasonably well anticipated.

(9) The similarity of stabilization factors resulting from retrospective valuations of properties of the same general type in widely scattered parts of the country has been interesting. This undoubtedly arises from the fact that major changes in business conditions are national in scope and their effect on the demand for popular types of rental space is felt throughout the country. This leads to the opinion that perhaps a half dozen experience tables with stabilization factors covering that many types of property would cover the bulk of the average appraiser's forecasting problems. The big job is to get enough records to determine average earnings each year for 25 or 30 years for each of the major types. The tables would have to include enough descriptive and explanatory matter concerning the average property in each type so the appraiser could make proper adjustments to allow for special features found in the individual property. The New York Life's research staff is set up to make the calculations and prepare the tables. Once they are prepared, it will be comparatively easy to bring them up to date each year as time marches on. What is needed now is more records.

Coburn & Middlebrook Add

(Special to THE FINANCIAL CHRONICLE)

PORTLAND, ME.—Ralph E. Wilson is with Coburn & Middlebrook, 465 Congress Street.

McCarley Adds Hendrix

(Special to THE FINANCIAL CHRONICLE)

CHARLOTTE, N. C.—Jack N. Hendrix is now associated with McCarley & Co. of Asheville.

The Banks and the Economy

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already producing at a theoretical capacity.

Whether we accept these conclusions or not, it should be clearly apparent new spending programs and possibilities bear within themselves the elements of additional inflationary dangers. The fact that they appear on the scene is ample evidence that the danger is not over and the anti-inflation action of the banks must be actively continued.

There is another complication. The alarmist propaganda, which features our press and Government Statements tends to accelerate purchases by consumers, and encourage the buying of items which either now or later may possibly be in short supply. It serves to reverse what was a growing tendency to wait for lower prices. It also serves to encourage inventory accumulation by those who have progressively moved to more conservative buying. And, it has its effect in stalling constructive effort because of the added confusions and uncertainties.

Thus, the dangerous possibilities arising from more government spending and another arms program being piled on the effects carried over from the costs of the war, are being well advertised.

Difference From 1941

This danger partly arises from a basic difference between the present situation and that of 1941. We now have $12 million more persons employed and a capacity, or near-capacity production. Whatever is taken out of what we produce today for increased military use or foreign aid may have to be cut out of the consumers' interest in present production and consequently reduce the stabilizing or deflationary effect of production increases and a growing free supply.

As a matter of fact, I think there are substantial offsets to this well-advertised series of possibilities. The actualities may not turn out to be as serious as pictured. We can take comfort from the exaggerations and mistakes of past predictions. In the first place there is a substantial difference between appropriations and actual spending. It will be difficult to spend wisely and carefully, and with full recognition of the interests of the people of the United States as well as the European Nations, the tremendous amounts appropriated for European aid. The military appropriations can not be spent immediately. It takes time to spend amounts of this tremendous size and to obtain the materials and products represented by the appropriations. Historically a tax reduction has rarely, if ever, produced reduction in Government revenues originally estimated. Thus, the effect on the Government cash budget may not be as completely unfavorable as the forecast.

Also, certain deflationary effects already are evident in the economy. There has been an increasing consumer resistance to high prices. The accumulated increases in production in certain lines of goods and products have added a marked availability and in some cases have already led to a leveling off of some prices and price reductions. We do not know now the extent to which this may go, or how much it will tend to offset some of these inflationary forces. But, more important than any of these is the fact that there is none of the universal optimism which has been one of the most important factors in the development of past inflationary cycles. Everyone is worried and thinking about the problems of either inflation or deflation. Everyone realizes the dangers and is trying to protect himself against them.

While we are receiving strong warnings about continued inflation and the need for lower prices from Government sources, nearly everything done by the Government is of a nature to put prices higher. Inflation forces are gaining new strength again by Government action. We hear of no effective plans to reduce other Government spending, sponsored credit or subsidies. Government acts have contributed and are contributing, more to the inflationary situation than any possible acts of all the banks combined. Increased use of bank credit is not and has not been an important factor in the inflationary situation. High prices and the increased need to use bank credit are a consequence of inflation and have not been a cause of it. Obviously high prices combined with large volume require more business borrowing. Among other things, alarms, uncertainties and the tax drains have substantially liquidated the traditional sources and availability of equity funds and risk capital, forcing business to have an undesired dependence on bank credit. Certainly, more Government regulations is not the cure. And if bank credit has to be used it has the virtue of being self-limiting in that properly and soundly made, it is paid off over a reasonably short period of time.

Banks Don't Create Credit

It is a common misconception that banks create credit. Actually they do not. The borrower exchanges his own credit for the more usable and more liquid credit of the bank. The bank certifies the borrower's credit by accepting his promise to pay, crediting his account, and permitting him to use cash or checks drawn against his account. By substituting the credit of the bank for the credit of the borrower, the borrower acquires a commonly accepted means of payment. This exchange of credit is based on the value of the borrower's assets and his established ability to repay his debt to the bank. Thus, credit given by banks is extended against values already created and in the possession of the borrower.

The banks have a very important part in the creation, control and final satisfaction of all debt. We live in a debt economy. Business and individual life are conducted mostly by the creation and acceptance of debt in some form of a promise to pay. There is a fundamental relationship between the creation of debt and the business cycle. The freedom with which debts are created and accepted, the nature of the debt created, and its volume generally are related to the stage of our business activity.

The banks play two parts in this relationship. In the first place they contribute to the creation of the debt by the freedom with which they extend credit. In extending credit, they can contribute to an excessive and unbalanced volume of debt (which is actually purchasing power) based on promises to pay which cannot be satisfied except by forced liquidation. Also, they can permit the spending of borrowed money in large amounts for inventory, real estate, or security speculation, with all their well-known dangers. The mistakes can go beyond those having to do with the individual loan to a general misuse of credit which finances an inflation or a mass speculation. This is where the combined effect of the loan and investment performance of banks have their greatest impact on the economy.

Added to this is the fact that nearly all debts finally are settled by actual money payment withdrawn from a bank or by a check drawn on a bank account. It follows then that the balance of quality between the promises to pay the bank in the form of loans and investments and the promises to pay bank depositors measures the ability of other debtors to discharge (with bank deposits) the debts they have incurred. Thus, in principle, the payment of bank assets always must be as sure and prompt as the payment the depositor expects from his account.

The banker's relation to the debt creation cycle is such that he can only accept promises to pay which, under adverse conditions, can be liquidated without resistance; and in accepting promises to pay, he cannot contribute to the creation of purchasing power that implements the development of fictitious values in which are the seeds of future losses.

The nature of credit extended and the quality of the assets of banks always bear a close relationship to the stability of the economy because it is only through the permanence of banks and their ability to meet the cash demands on them as they are made, and under any conditions, that other economic changes can proceed without complete disaster.

Conclusions

The conclusion to be drawn from what I have said is that the banking business is not one which can be operated in the terms of the commercial and financial profit philosophy of other private enterprises. It cannot fulfill its economic functions if its standards of operation are set by or measured against those of other businesses which have an entirely different form of obligation to creditors, to the public, or to the Nation. It is a business in which managements must know the working rules of its relationships with the economy, recognize the problems which are peculiar to it and work toward objectives which accept a broader responsibility than the mere operation of a private business enterprise for profit.

I want to remind you that the issue of credit control, either in time of peace or in time of war, is related to the functions of banks and their effect on the economy as a whole. The anti-inflation, or credit control program, of the ABA is an example of an attempt to meet a peace-time economic issue by other means than by law or Government regulations. It would be a mistake for bankers to assume that this credit control program was put into effect merely because there was the threat of a law to curtail the activities of banks and that the need for this action had no foundation other than to oppose such a law. There were sound reasons for the program without considering the effect of any proposed law.

Today the major problem of the American economy is to avoid any of the extremes of inflation or deflation which have plagued its past history. These have brought about easily remembered problems of great seriousness to the public and to the Government. If we are to do this, everyone of us, whether in banking or any other form of business, must act with more foresight and intelligence than we have sometimes in the past. We must be willing to give more consideration to the economic net product of what we do.

I strongly believe that we will retain our present scope of freedom of action only so long as we recognize and meet our individual and business responsibilities to the country as a whole while, at the same time, we meet our individual responsibilities in the operation of our private enterprise. Elihu Root once said: "Self-control is the primary discipline on which self-government must depend." Our fate is more in our own hands than most persons are inclined to believe. We cannot afford to use our liberties in such a way as to destroy any part of them.

The Keynesian Miracle

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rise of appeasement. With the exception of a small number of keen-sighted men, all Britons supported the policy which finally made it possible for the Nazis to start the second World War.

A highly gifted French economist, Etienne Mantoux, has analyzed Keynes' famous book point for point. The result of his very careful and conscientious study is devastating for Keynes the economist and statistician, as well as Keynes the statesman. The friends of Keynes are at a loss to find any substantial rejoinder. The only argument that his friend and biographer, Professor E. A. G. Robinson, could advance is that this powerful indictment of Keynes' position came "as might have been expected from a Frenchman." ("Economic Journal," Vol. LVII, p. 23.) As if the disastrous effects of appeasement and defeatism had not affected Great Britain also!

Etienne Mantoux, son of the famous historian, Paul Mantoux, was the most distinguished of the younger French economists. He had already made valuable contributions to economic theory—among them a keen critique of Keynes' "General Theory," published in 1937 in the "Revue d' Economie Politique"—before he began his "The Carthaginian Peace or the Economic Consequences of Mr. Keynes" (Oxford University Press, 1946). He did not live to see his book published. As an officer in the French forces he was killed on active service during the last days of the war. His premature death was a heavy blow to France, which is today badly in need of sound and courageous economists.

The "New Economics"

It would be a mistake, also, to blame Keynes for the faults and failures of contemporary British economic and financial policies. When he began to write, Britain had long since abandoned the principle of *laissez-faire*. That was the achievement of such men as Thomas Carlyle and John Ruskin and, especially, of the Fabians. Those born in the eighties of the nineteenth century and later were merely epigones of the university and parlor Socialists of the late Victorian period. They were no critics of the ruling system, as their predecessors had been, but apologists of government and pressure group policies whose inadequacy, futility and perniciousness became more and more evident.

Professor Seymour E. Harris has just published a stout volume of collected essays by various academic and bureaucratic authors dealing with Keynes' doctrines as developed in his "General Theory of Employment, Interest and Money," published in 1936. The title of the volume is "The New Economics, Keynes' Influence on Theory and Public Policy" (Alfred A. Knopf, New York, 1947). Whether Keynesianism has a fair claim to the appellation "*new* economics" or whether it is not, rather, a rehash of often-refuted Mercantilist fallacies, and of the syllogisms of the innumerable authors who wanted to make everybody prosperous by fiat money, is unimportant. What matters is not whether a doctrine is new, but whether it is sound.

The remarkable thing about this symposium is that it does not even attempt to refute the *substantiated* objections raised against Keynes by serious economists. The editor seems to be unable to conceive that any honest and uncorrupted man could disagree with Keynes. As he sees it, opposition to Keynes comes from "the vested interests of scholars in the older theory" and "the preponderant influence of press, radio, finance, and subsidized research." In his eyes, non-Keynesians are just a bunch of bribed sycophants, unworthy of attention. Professor Harris thus adopts the methods of the Marxians and the Nazis, who preferred to smear their critics and to question their motives instead of refuting their theses.

A few of the contributions are written in dignified language and are reserved, even critical, in their appraisal of Keynes' achievements. Others are simply dithyrambic outbursts. Thus Professor Paul E. Samuelson tells us: "To have been born as an economist before 1936 was a boon—yes. But not to have been born too long before!" And he proceeds to quote Wordsworth:

"Bliss was it in that dawn to be alive,
But to be young was very heaven!"

Descending from the lofty heights of Parnassus into the prosaic valleys of quantitative science, Professor Samuelson provides us with exact information about the susceptibility of economists to the Keynesian gospel of 1936. Those under the age of 35 fully grasped its meaning after some time; those beyond 50 turned out to be quite immune, while economists in-between were divided. After thus serving us a warmed-over version of Mussolini's *giovanezza* theme, he offers more of the outworn slogans of fascism, e. g., the "wave of the future." However, on this point another contributor, Mr. Paul M. Sweezy, disagrees. In his eyes Keynes, tainted by "the shortcomings of bourgeois thought" as he was, is not the savior of mankind, but only the forerunner whose historical mission it is to prepare the British mind for the acceptance of pure Marxism and to make Great Britian ideologically ripe for full Socialism.

Keynes' Rhetorical Methods

In resorting to the method of innuendo and trying to make their adversaries suspect by referring to them in ambiguous terms allowing of various interpretations, the camp-followers of Lord Keynes are imitating their idol's own procedures. For what many people have admiringly called Keynes' "brilliance of style" and "mastery of language" were, in fact, cheap rhetorical tricks.

Ricardo, says Keynes, "conquered England as completely as the Holy Inquisition conquered Spain." This is as vicious as any comparison could be. The Inquisition, aided by armed constables and executioners, beat the Spanish people into submission. Ricardo's theories were accepted as correct by British intellectuals without any pressure or compulsion being exercised in their favor. But in comparing the two entirely different things, Keynes obliquely hints that there was something shameful in the success of Ricardo's teachings and that those who disapprove of them are as heroic, noble and fearless champions of freedom as were those who fought the horrors of the Inquisition.

The most famous of Keynes' *apercus* is "Two pyramids, two masses for the dead, are twice as good as one; but not so two railways from London to York." It is obvious that this sally, worthy

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The Keynesian Miracle

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of a character in a play by Oscar Wilde or Bernard Shaw, does not in any way prove the thesis that digging holes in the ground and paying for them out of savings "will increase the real national dividend of useful goods and services." But it puts the adversary in the awkward position of either leaving an apparent argument unanswered or of employing the tools of logic and discursive reasoning against sparkling wit.

Another instance of Keynes' technique is provided by his malicious description of the Paris Peace Conference. Keynes disagreed with Clemenceau's ideas. Thus, he tried to ridicule his adversary by broadly expatiating upon his clothing and appearance which, it seems, did not meet with the standard set by London outfitters. It is hard to discover any connection with the German reparations problem in the fact that Clemenceau's boots "were of thick black leather, very good, but of a country style, and sometimes fastened in front, curiously, by a buckle instead of laces." After 15 million human beings had perished in the war, the foremost statesmen of the world were assembled to give mankind a new international order and lasting peace . . . and the British Empire's financial expert was amused by the rustic style of the French Prime Minister's footwear!

Fourteen years later there was another international conference. This time Keynes was not a subordinate adviser, as in 1919, but one of the main figures. Concerning this London World Economic Conference of 1933, Professor Robinson observes: "Many economists the world over will remember . . . the performance in 1933 at Covent Garden in honor of the Delegates of the World Economic Conference, which owed its conception and organization very much to Maynard Keynes."

Those economists who were not in the service of one of the lamentably inept governments of 1933 and therefore were not Delegates and did not attend the delightful ballet evening, will remember the London Conference for other reasons. It marked the most spectacular failure in the history of international affairs of those policies of neo-Mercantilism which Keynes backed. Compared with this fiasco of 1933, the Paris Conference of 1919 appears to have been a highly successful affair. But Keynes did not publish any sarcastic comments on the coats, boots and gloves of the Delegates of 1933.

Keynes and Silvio Gesell

Although Keynes looked upon "the strange, unduly neglected prophet Silvio Gesell" as a forerunner, his own teachings differ considerably from those of Gesell. What Keynes borrowed from Gesell as well as from the host of other pro-inflation propagandists was not the content of their doctrine, but their practical conclusions and the tactics they applied to undermine their opponents' prestige. These stratagems are:

(1) All adversaries, that is, all those who do not consider credit expansion as the panacea, are lumped together and called *orthodox*. It is implied that there are no differences between them.

(2) It is assumed that the evolution of economic science culminated in Alfred Marshall and ended with him. The findings of modern subjective economics are disregarded.

(3) All that economists from David Hume on down to our time have done to clarify the results of changes in the quantity of money and money-substitutes is simply ignored. Keynes never embarked upon the hopeless task of refuting these teachings by ratiocination.

In all these respects the contributors to the symposium adopt their master's technique. Their critique aims at a body of doctrine created by their own illusions, which has no resemblance to the theories expounded by serious economists. They pass over in silence all that economists have said about the inevitable outcome of credit expansion. It seems as if they have never heard anything about the monetary theory of the trade cycle.

The Triumph of Keynesianism

For a correct appraisal of the success which Keynes' "General Theory" found in academic circles, one must consider the conditions prevailing in university economics during the period between the two world wars.

Among the men who occupied chairs of economics in the last few decades, there have been only a few genuine economists, i.e., men fully conversant with the theories developed by modern subjective economics. The ideas of the old classical economists, as well as those of the modern economists, were caricatured in the textbooks and in the classrooms; they were called such names as old-fashioned, orthodox, reactionary, bourgeois or Wall Street economics. The teachers prided themselves on having refuted for all time the abstract doctrines of Manchesterism and *laissez-faire*.

The antagonism between the two schools of thought had its practical focus in the treatment of the labor union problem. Those economists disparaged as orthodox taught that a permanent rise in wage rates for all people eager to earn wages is possible only to the extent that the per capita quota of capital invested and the productivity of labor increases. If —whether by government decree or by labor union pressure—minimum wage rates are fixed at a higher level than that at which the unhampered market would have fixed them, unemployment results as a permanent mass phenomenon.

Almost all professors of the fashionable universities sharply attacked this theory. As these self-styled "unorthodox" doctrinaires interpreted the economic history of the last two hundred years, the unprecedented rise in real wage rates and standards of living was caused by labor unionism and government pro-labor legislation. Labor unionism was, in their opinion, highly beneficial to the true interests of all wageearners and of the whole nation. Only dishonest apologists of the manifestly unfair interests of callous exploiters could find fault with the violent acts of the unions they maintained. The foremost concern of popular government, they said, should be to encourage the unions as much as possible and to give them all the assistance they needed to combat the intrigues of the employers and to fix wage rates higher and higher.

But as soon as the governments and legislatures had vested the unions with all the powers they needed to enforce their minimum wage rates, the consequences appeared which the "orthodox" economists had predicted; unemployment of a considerable part of the potential labor force was prolonged year after year.

The "unorthodox" doctrinaires were perplexed. The only argument they had advanced against the "orthodox" theory was the appeal to their own fallacious interpretation of experience. But now events developed precisely as the "abstract school" had predicted. There was confusion among the "unorthodox."

It was at this moment that Keynes published his "General Theory." What a comfort for the embarrassed "progressives"! Here, at last, they had something to oppose to the "orthodox" view. The cause of unemployment was not the inappropriate labor policies, but the shortcomings of the monetary and credit system. No need to worry any longer about the insufficiency of savings and capital accumulation and about deficits in the public household. On the contrary. The only method to do away with unemployment was to increase "effective demand" through public spending financed by credit expansion and inflation.

The policies which the "General Theory" recommended were precisely those which the "monetary cranks" had advanced long before and which most governments had espoused in the depression of 1929 and the following years. Some people believe that Keynes' earlier writings played an important part in the process which converted the world's most powerful governments to the doctrines of reckless spending, credit expansion and inflation. We may leave this minor issue undecided. At any rate it cannot be denied that the governments and peoples did not wait for the "General Theory" to embark upon these "Keynesian"—or more correctly, Gesellian, policies.

The Failure of the Keynesian "Revelation"

Keynes' "General Theory" of 1936 did not inaugurate a new age of economic policies; rather it marked the end of a period. The policies which Keynes recommended were already then very close to the time when their inevitable consequences would be apparent and their continuation would be impossible. Even the most fanatical Keynesians do not dare to say that present-day England's distress is an effect of too much saving and insufficient spending. The essence of the much glorified "progressive" economic policies of the last decades was to expropriate ever-increasing parts of the higher incomes and to employ the funds thus raised for financing public waste and for subsidizing the members of the most powerful pressure groups. In the eyes of the "unorthodox," every kind of policy, however manifest its inadequacy may have been, was justified as a means of bringing about more equality. Now this process has reached its end. With the present tax rates and the methods applied in the control of prices, profits and interest rates, the system has liquidated itself. Even the confiscation of every penny earned above 1,000 pounds a year will not provide any perceptible increase to Great Britain's public revenue. The most bigoted Fabians cannot fail to realize that henceforth funds for public spending must be taken from the same people who are supposed to profit from it. Great Britain has reached the limit both of monetary expansionism and of spending.

Conditions in this country are not essentially different. The Keynesian recipe to make wage rates soar no longer works. Credit expansion, on an unprecedented scale engineered by the New Deal, for a short time delayed the consequences of inappropriate labor policies. During this interval the Administration and the union bosses could boast of the "social gains" they had secured for the "common man." But now the inevitable consequences of the increase in the quantity of money and deposits have become visible; prices are rising higher and higher. What is going on today in the United States is the final failure of Keynesianism.

There is no doubt that the American public is moving away from the Keynesian notions and slogans. Their prestige is dwindling. Only a few years ago politicians were naively discussing the extent of national income in dollars without taking into account the changes which government-made inflation had brought about in the dollar's purchasing power. Demagogues specified the level to which they wanted to bring the national (dollar) income. Today this form of reasoning is no longer popular. At last the "common man" has learned that increasing the quantity of dollars does not make America richer. Professor Harris still praises the Roosevelt Administration for having raised dollar incomes. But such Keynesian consistency is found today only in classrooms.

There are still teachers who tell their students that "an economy can lift itself by its own bootstraps" and that "we can spend our way into prosperity." (Compare Lorie Tarshis, The Elements of Economics, page 565.) But the Keynesian miracle fails to materialize; the stones do not turn into bread. The panegyrics of the learned authors who cooperated in the production of the "New Economics" merely confirm the editor's introductory statement that "Keynes could awaken in his disciples an almost religious fervor for his economics, which could be effectively harnessed for the dissemination of the new economics." And Professor Harris goes on to say, "Keynes indeed had the Revelation." (page 5)

There is no use in arguing with people who are driven by "an almost religious fervor" and believe that their master "had the Revelation." It is one of the tasks of economics to analyze carefully each of the inflationist plans, those of Keynes and Gesell no less than those of their innumerable predecessors from John Law down to Major Douglas. Yet, no one should expect that any logical argument or any experience could ever shake the almost religious fervor of those who believe in salvation through spending and credit expansion.

The Stockholder's High Cost of Living—What to do About It

(Continued from page 6)

other direct connection between the stockholder's plight and the high cost of living for us all Taxes have a way of entering into the price level, and a governmental budget of swollen proportions, of course, makes it difficult to reduce taxes or to keep governmental agencies from interfering with the smooth operation of business. Perhaps a good example of the latter is the manner in which the present Council of Economic Advisers to the President has issued repeated warnings to business in the past year or two. Most of these were subsequently found to be groundless but their effect on business in Wall Street was unfavorable, and probably other businesses suffered also. This Council is now said to favor preparation to reimpose price control, excess profits taxes, etc., the necessity for which is very much in doubt. The Council has apparently never considered the stockholder's plight as worth mentioning, nor in its classification of the causes of potential inflation has it stressed the influence of inflated wage demands from labor nor the inequities of the tax structure.

Malnutrition of capital probably has many other ultimate consequences, such as an effect on individual liberty here, or the setting of a bad example for foreign nations, etc., but it is not the purpose of this brief article to discuss these.

What Can Be Done

What can stockholders do to attempt to regain their rightful position in the economy? Organization seems a necessary step, and is quite feasible as stockholders are sufficiently numerous, numbering according to some estimates around 15 million. The stockholder has for years been the butt of other pressure groups, and organization as a pressure group seems necessary in self-defense. An established investor organization (and to become established it would require only a fraction of the total number of investors—perhaps only 1 million) could do many things. Firstly and most importantly, it would have a spokesman who could refute the claims of other groups. The latter are constantly gaining the public ear with their side of the story, in the press, on the radio, etc., while investors have been almost completely silent, with the result that the public may have been ingrained with the wrong point of view on the value of securities in our American system. Among other things a powerful stockholders' organization could do, are the issuance of pamphlets, advertising in newspapers and on the radio, lobbying in legislatures (where other blocs, such as the farmers, etc., are now well represented), retention of expert legal and other advice for specific actions—in other words, see to it that investors' rights are properly considered in all public problems. Stockholders should join organizations which now exist, such as the Investors League or the Committee of Investors of America, or if they do not like these, they should speedily attempt to form others. Stockholders should urge the managements of the companies in which they have investments to assist stockholder organizations in any way possible. If stockholders continue to take the attitude that the day after tomorrow is soon enough to do these things, let them remember Benjamin Franklin's saying "If we do not all hang together, then we shall all hang separately!"

Emerson a Director

At a meeting of the Board of Directors of the Norfolk & Southern Railway, held immediately after the Annual Stockholders' Meeting yesterday (Wednesday), Willard I. Emerson, of New York, and Southport, Conn., was elected a director. Since 1936, Mr. Emerson has been a general partner of Hemphill, Noyes & Co., Investment Bankers and Members of the New York Stock Exchange. He is a trustee of America's Future, Inc., and the Fairfield Country Day School, a member of the Executive Committee of the Cornell University Alumni Fund Council. He is a graduate of Cornell University and attended Cambridge University in England and Columbia University.

During World War I he was a Captain in the 311th Infantry, 78th Division, and received the Distinguished Service Cross for bravery in action. In World War II, Mr. Emerson was a Lieutenant Colonel, Air Corps, served overseas for two years and received the New York State Conspicuous Service Cross.

Jennings at Merrill Lynch

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — Robert V. Jennings has become affiliated with Merrill Lynch, Pierce, Fenner & Beane, Board of Trade Building. He was formerly with Clarence G. Troup & Co. and Lamborn, Troup & Co.

With Hickory Securities

(Special to THE FINANCIAL CHRONICLE)

HICKORY, N. C.—James B. Lucas is with Hickory Securities Corporation, 1357 Union Square.

Indications of Current Business Activity

The following statistical tabulations cover production and other figures for the latest week or month available (dates shown in first column are either for the week or month ended on that date, or, in cases of quotations, are as of that date):

		Latest Week	Previous Week	Month Ago	Year Ago
AMERICAN IRON AND STEEL INSTITUTE:					
Indicated steel operations (percent of capacity)	May 16	94.3	91.0	71.3	94.2
Equivalent to—					
Steel ingots and castings produced (net tons)	May 16	1,699,700	1,640,300	1,285,200	1,648,400
AMERICAN PETROLEUM INSTITUTE:					
Crude oil output—daily average (bbls. of 42 gallons each)	May 1	5,413,450	5,415,400	5,388,700	4,950,700
Crude runs to stills—daily average (bbls.)	May 1	5,570,000	5,517,000	5,475,000	4,803,000
Gasoline output (bbls.)	May 1	16,681,000	16,515,000	15,735,000	14,526,000
Kerosine output (bbls.)	May 1	2,236,000	2,452,000	2,484,000	1,952,000
Gas oil and distillate fuel oil output (bbls.)	May 1	6,932,000	6,831,000	7,586,000	5,285,000
Residual fuel oil output (bbls.)	May 1	9,343,000	8,877,000	9,084,000	7,784,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbls.) at	May 1	111,632,000	111,128,000	113,261,000	101,674,000
Kerosine (bbls.) at	May 1	13,394,000	12,481,000	10,930,000	9,604,000
Gas oil and distillate fuel oil (bbls.) at	May 1	35,224,000	34,237,000	32,180,000	30,132,000
Residual fuel oil (bbls.) at	May 1	50,829,000	49,572,000	47,959,000	42,539,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	May 1	891,638	852,309	661,807	882,574
Revenue freight rec'd from connections (number of cars)	May 1	722,781	697,419	593,504	718,657
CIVIL ENGINEERING CONSTRUCTION, ENGINEERING NEWS-RECORD:					
Total U. S. construction	May 6	$113,317,000	$183,253,000	$93,800,000	$95,160,000
Private construction	May 6	48,691,000	68,849,000	24,951,000	41,724,000
Public construction	May 6	64,626,000	114,404,000	68,849,000	53,436,000
State and municipal	May 6	41,353,000	66,553,000	54,965,000	36,279,000
Federal	May 6	23,273,000	47,851,000	13,884,000	17,157,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	May 1	13,800,000	*11,558,000	2,090,000	12,516,000
Pennsylvania anthracite (tons)	May 1	1,128,000	1,162,000	856,000	1,094,000
Beehive coke (tons)	May 1	90,800	*63,700	9,900	128,600
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	May 1	301	296	280	279
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	May 8	5,087,264	5,042,352	5,032,879	4,653,137
FAILURES (COMMERCIAL AND INDUSTRIAL)—DUN & BRADSTREET, INC.	May 6	108	106	79	98
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	May 4	3.18422c	3.23940c	3.23940c	2.86354c
Pig iron (per gross ton)	May 4	$40.11	$40.11	$40.11	$33.15
Scrap steel (per gross ton)	May 4	$40.42	$40.33	$40.25	$29.75
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	May 5	21.200c	21.200c	21.200c	21.225c
Export refinery at	May 5	21.425c	21.425c	21.425c	23.675c
Straits tin (New York) at	May 5	94.000c	94.000c	94.000c	80.000c
Lead (New York) at	May 5	17.500c	17.500c	17.500c	15.000c
Lead (St. Louis) at	May 5	17.300c	17.300c	17.300c	14.800c
Zinc (East St. Louis) at	May 5	12.000c	12.000c	12.000c	10.500c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Govt. Bonds	May 11	100.88	100.84	100.88	104.50
Average corporate	May 11	112.56	112.37	112.00	117.40
Aaa	May 11	117.80	117.60	117.40	122.50
Aa	May 11	115.82	115.43	115.43	120.43
A	May 11	118.81	111.81	111.44	116.80
Baa	May 11	105.69	105.34	104.66	110.34
Railroad Group	May 11	107.80	107.44	106.92	112.37
Public Utilities Group	May 11	113.89	113.89	113.70	118.80
Industrials Group	May 11	116.41	116.22	116.02	121.25
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Govt. Bonds	May 11	2.44	2.44	2.44	2.20
Average corporate	May 11	3.03	3.04	3.06	2.78
Aaa	May 11	2.76	2.77	2.78	2.53
Aa	May 11	2.86	2.88	2.88	2.63
A	May 11	3.07	3.07	3.09	2.81
Baa	May 11	3.41	3.43	3.47	3.15
Railroad Group	May 11	3.29	3.31	3.34	3.04
Public Utilities Group	May 11	2.96	2.96	2.97	2.71
Industrials Group	May 11	2.83	2.84	2.85	2.59
MOODY'S COMMODITY INDEX	May 11	416.0	417.1	418.2	401.4
NATIONAL FERTILIZER ASSOCIATION—WHOLESALE COMMODITY INDEX BY GROUPS—1935-39=100:					
Foods	May 8	236.4	235.4	231.5	214.6
Fats and oils	May 8	290.7	269.7	269.8	227.8
Farm products	May 8	254.9	254.4	254.5	246.5
Cotton	May 8	349.4	358.9	348.9	344.9
Grains	May 8	266.6	264.4	271.8	250.2
Livestock	May 8	240.4	237.9	238.5	232.5
Fuels	May 8	228.6	228.6	228.6	170.4
Miscellaneous commodities	May 8	175.2	175.2	173.8	157.9
Textiles	May 8	213.5	214.6	212.6	216.4
Metals	May 8	163.5	164.9	163.5	147.9
Building materials	May 8	232.2	227.3	230.4	203.3
Chemicals and drugs	May 8	155.6	155.8	156.7	157.5
Fertilizer materials	May 8	136.3	136.3	137.2	127.5
Fertilizers	May 8	143.7	143.7	143.7	134.6
Farm machinery	May 8	139.2	139.2	138.8	125.5
All groups combined	May 8	219.9	219.3	218.2	196.8
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	May 1	201,340	181,068	233,919	232,682
Production (tons)	May 1	192,731	190,294	186,484	181,063
Percentage of activity	May 1	102	102	98	102
Unfilled orders (tons) at	May 1	397,407	393,044	464,683	582,603
OIL, PAINT AND DRUG REPORTER PRICE INDEX—1926-36 AVERAGE=100	May 6	146.7	145.8	146.2	146.9
WHOLESALE PRICES—U. S. DEPT. OF LABOR—1926=100:					
All commodities	May 1	162.6	163.6	160.1	146.7
Farm products	May 1	186.9	188.9	183.9	174.6
Foods	May 1	177.5	180.4	172.4	162.7
Hides and leather products	May 1	188.0	187.1	186.0	166.7
Textile products	May 1	148.1	148.2	145.1	138.0
Fuel and lighting materials	May 1	132.6	132.6	131.7	104.0
Metal and metal products	May 1	157.2	157.2	156.6	140.7
Building materials	May 1	195.2	195.3	193.2	178.5
Chemicals and allied products	May 1	133.7	136.5	135.5	128.6
Housefurnishings goods	May 1	144.4	144.4	144.3	128.6
Miscellaneous commodities	May 1	121.3	122.2	121.0	115.4
Special groups—					
Raw materials	May 1	176.8	177.8	174.8	159.4
Semi-manufactured articles	May 1	153.7	153.7	152.9	142.2
Manufactured products	May 1	157.9	158.9	154.9	142.2
All commodities other than farm products	May 1	157.2	158.0	154.8	140.6
All commodities other than farm products and foods	May 1	148.7	149.0	147.7	131.8

*Revised figure.

	Latest Month	Previous Month	Year Ago
AMERICAN PETROLEUM INSTITUTE—Month of February:			
Total domestic production (bbls. of 42 gallons each)	166,596,000	175,828,000	144,637,000
Domestic crude oil output (bbls.)	155,224,000	163,781,000	134,693,000
Natural gasoline output (bbls.)	11,344,000	11,997,000	9,864,000
Benzol output (bbls.)	28,000	50,000	80,000
Crude oil imports (bbls.)	8,354,000	8,427,000	8,444,000
Refined products imports (bbls.)	6,288,000	5,479,000	5,597,000
Indicated consumption—domestic and export (bbls.)	181,813,000	199,763,000	169,257,000
Decrease—all stock (bbls.)	575,000	10,029,000	10,579,000
BUILDING CONSTRUCTION—U. S. DEPT. OF LABOR—Month of February (in millions):			
Total construction	$1,097	*$1,220	$913
New construction	959	*1,065	796
Private construction	785	*863	634
Residential building (nonfarm)	400	*475	284
Nonresidential building (nonfarm)	273	*274	260
Industrial	125	130	152
Commercial	89	*87	62
All other	59	57	46
Farm construction	14	*14	16
Public utilities	98	100	80
Public construction	174	*202	161
Residential building	2	4	22
Nonresidential building (except military naval facilities)	50	*54	32
Industrial	---	---	3
All other	50	*54	29
Military and naval facilities	9	*13	13
Highways	45	55	34
Sewer and water	25	*27	16
Conservation and development	30	34	19
All other public	13	15	12
Minor building repairs	138	155	130
Residential building (nonfarm)	43	50	33
Nonresidential building (nonfarm)	50	55	50
Farm	45	50	36
CIVIL ENGINEERING CONSTRUCTION—ENGINEERING NEWS RECORD — Month of April:			
Total U. S. construction	$777,159,000	$508,096,000	$454,471,000
Private construction	391,268,000	220,715,000	213,667,000
Public construction	385,891,000	287,381,000	240,804,000
State and Municipal	271,005,000	188,288,000	174,821,000
Federal	114,886,000	99,093,000	65,983,000
COAL OUTPUT (BUREAU OF MINES)—Month of April:			
Bituminous coal and lignite (net tons)	34,631,000	34,016,000	41,225,000
Pennsylvania authracite (net tons)	4,436,000	4,928,000	4,279,000
Beehive coke (net tons)	197,700	*320,500	437,700
COTTON GINNING (DEPT. OF COMMERCE)—Final Report For Crop Year Issued May 5:			
Running bales (exclusive of linters)	11,551,738	-----	8,517,291
DEPARTMENT STORE SALES (FEDERAL RESERVE SYSTEM — 1935-39 Average=100)—Month of April:			
Adjusted for seasonal variation	299	*284	277
Without seasonal adjustment	284	285	269
METAL PRICES (E. & M. J. QUOTATIONS)—Average for month of April:			
Copper (per pound)—			
Electrolytic, domestic refinery	21.200c	21.200c	21.225c
Electrolytic, export refinery	21.534c	21.531c	23.315c
Lead (per pound)—			
New York	17.212c	15.000c	15.000c
St. Louis	17.012c	14.800c	14.800c
Silver and Sterling Exchange—			
Silver, New York (per ounce)	74.625c	74.625c	75.653c
Silver, London (pence per ounce)	45.000	45.000	45.825
Sterling Exchange, (Checks)	$4.02614	$4.02500	$4.02500
Tin (per pound)—			
New York Straits	94.000c	94.000c	80.000c
New York, Chinese or 99%	93.500c	93.500c	78.900c
Gold (per ounce U. S. price)	$35.000	$35.000	$35.000
Quicksilver (per flask of 76 pounds)	$75.462	$76.000	$85.769
¶Antimony (per pound) (E. & M. J.)	36.120c	36.120c	35.940c
Antimony (per pound) bulk, Laredo	33.000c	33.000c	33.000c
Antimony (per pound), in cases, Lareod	33.500c	33.500c	33.500c
Antimony (per pound), Chinese, Spot	Nominal	Nominal	Nominal
Platinum, refined, per ounce	$92.923	$72.926	$60.885
†Cadmium (per pound)	$1.750	$1.750	$1.750
‡Cadmium (per pound)	$1.775	$1.775	$1.775
§Cadmium (per pound)	$1.800	$1.800	$1.800
Aluminum, 99% plus, ingot (per pound)	15.000c	15.000c	15.000c
Magnesium, ingot (per pound)	20.500c	20.500c	20.500c
Zinc (per pound)—East St. Louis	12.000c	12.000c	10.500c
MONEY IN CIRCULATION — TREASURY DEPT.—As of March 31 (000's omitted)	$27,780,951	$28,018,806	$28,229,810
MOODY'S WEIGHTED AVERAGE YIELD OF 200 COMMON STOCKS—Month of April:			
Industrials (125)	5.5	5.5	5.0
Railroads (25)	6.3	6.7	7.3
Utilities (25)	5.4	5.5	4.9
Banks (15)	4.5	4.6	4.6
Insurance (10)	3.2	3.3	3.0
Average yield (200)	5.5	5.5	5.1
RR. EARNINGS—CLASS I ROADS (ASSOC. OF AMER. RRS.) — Month of March:			
Total operating revenues	$776,616,109	$715,890,641	$718,650,950
Total operating expenses	618,759,345	586,355,682	549,498,640
Operating ratio—per cent	79.67	81.91	76.46
Taxes	$82,163,688	$77,254,849	$81,991,463
Net railway operating income before charges	60,724,331	39,425,295	73,924,144
Net income after charges (est.)	35,200,000	17,500,000	46,200,000
UNITED STATES GROSS DEBT DIRECT AND GUARANTEED—As of April 30 (000's omitted)	$252,315,331	$253,068,069	$257,879,614
General fund balance	4,612,423	5,352,930	4,311,655
Net debt	$247,702,908	$247,715,139	$253,567,959
Computed annual interest rate	2.173%	2.168%	2.089%
WINTER RYE PRODUCTION — CROP REPORTING BOARD U. S. DEPT. OF AGRICULTURE—As of May 1 (bushels)	25,988,000	------	25,977,000
WINTER WHEAT PRODUCTION CROP REPORTING BOARD—U. S. DEPT. OF AGRICULTURE—As of May 1 (bushels)	845,484,000	860,521,000	1,067,970,000

*Revised figure. †Based on the producers' quotation. ‡Based on the average of the producers' and platers' quotations. §Based on platers' quotations. ¶Domestic, five tons or more but less than carload lot, packed in cases, f. o. b. New York.

Our Dismal Outlook

(Continued from first page)

and take care of henceforth, but he turned out to be merely the American Taxpayer, and is sorry they thought of him. Today we need to be reminded not so much of "the forgotten man" as of "the forgotten land," which is what America has become to most of the world, including ourselves and especially our statesmen. I gladly make a free gift of the phrase to any of them aspiring to public office, or perspiring in one, who has any use for it in the current political compaign; but they seem so much concerned with the governments of other countries and so little with our own that most of them would find it more appropriate to speak of America as "the promised land," since they have promised so much of it to the rest of the world.

I know that the debate on this question is closed for the present and I do not intend to reopen it here on its merits. It will probably reopen itself as some of the implications and consequences of the European Recovery Program appear with the passage of time, and it is with these, as they affect the outlook for Americans, that I am concerned. It is barely a year since the Marshall Plan was born, but its transformation from a scheme of general European economic cooperation and aid, through the stages of a kind of *cordon sanitaire* against Communism, to military alliance, rearmament and lend-lease, and finally to conscription and mobilization, has been so swift that we have hardly had time to throw away the newspapers of yesterday containing the last speech assuring us that it was a plan to prevent war and that this stage would spare us the next.

Our Varied Commitments and Political Arithmetic

So we find ourselves today committed not only to a vast program of economic subsidy to European governments but to military alliance against Russia and to a vast program of rearmament at home and abroad, for which it was supposed to be a substitute. The calculations that entered into the "calculated risk," as the proponents of the Marshall Plan called it, seem to have been wrong, as often happens in political arithemetic; but the fact is that the Plan was a military program from the beginning. It was never justifiable on any rational economic grounds and never had any chance of success as a program of economic reconstruction. It may help to fortify Western Europe temporarily as a better basis for military operations than would be possible otherwise, if we have time and can keep it up long enough; but it cannot make Europe economically solvent and self-supporting under the socialist political and economic system that exists in every country there. There has never been a self-supporting socialism anywhere in the world, and it would be too much to expect that even Paul Hoffman could make one in Europe with a few billions of American money, though it is very significant that we think he can. Moreover, Communism is merely the last stage or the final form of Socialism, so that in supporting Socialism abroad we are in fact nourishing Communism.

ERP Continues Past Errors

The important thing about ERP is that it is a product and a logical extension of American foreign policy during the past 15 years, which in turn is the outcome of the ideas and attitude that have underlain our domestic economic and political policies during this period. It is these ideas and attitudes, as they are expressed in our foreign relations today, that shape the outlook for the future of Americans as much as any events abroad or anything that Russia may do.

I doubt that the history of any other country can show a record of such incompetence, confusion, waste, futility and disastrous failure in the management of its international military, diplomatic and economic relations as has been exhibited by our government during and since the war. By the decisions made in the closing months of the war at Teheran, Yalta, and Potsdam, our government not only caused the colossal war effort of the American people to be completely wasted, so far as the purposes of that effort were concerned, but it gambled away their security for the future. There was in these decisions and policies something more important than mere stupidity and blundering; there was almost criminal betrayal or disregard of some of the fundamental principles and standards of liberty and justice upon which American life had been based in the past, and which we then professed and still profess to be defending in the rest of the world.

Our Past Follies

There is little point, and certainly no pleasure, in reviewing either the follies or the crimes in this record of our foreign policy during the past four years. No one can now undo the economic or moral damage of the Morgenthauization of Germany; of having allowed our Allies, the Czechs, Poles and Russians, to drive millions of people from their homes in Eastern Europe; of having agreed to let our Allies keep millions of prisoners of war as slave laborers and handed our own prisoners over to the French to kill by overwork and starvation; and having applied and strenghened the totalitarian principle of collective guilt and punishment in the Nuremburg trials, and sanctioned looting and slavery under the name of reparations. We cannot escape the fact that, while in 1945 we had won a victory that destroyed the power of our enemies and had the power and resources to make a just and lasting peace, we gave the command of Europe to totalitarian Russia by the concessions we made to Stalin's ruthless ambition and greed without excuse, by betraying our weak Allies and delivering them with the defeated small nations to communist power. We have done, or let our government do these and other things as wrong and harmful in the past four years, and what we face today in the Marshall Plan and the rearmament program is mainly the cost and consequences of the error, folly or weakness of those responsible for our foreign policies during this period. Most of these men are still alive and many of them still in public office, yet hardly anyone thinks of holding them to any kind of accountability, of condemning or even criticizing them for this record of failure and folly which has meant such catastrophe for America. This indifference is not mere fatalistic acceptance of misfortune; it is an important symptom of the prevailing public attitude toward government and its employees in this country today, which shows itself in many other aspects of public affairs. It reflects, too, the fact that the public probably still accepts the fundamental ideas that determined our foreign policies during these 15 years, and forgives the blunders and incompetence of those who tried to execute them, because it still believes in these ideas. In the coming elections we shall see whether, in the case of one candidate who held high office during that period, this tolerance toward those whose general economic and social ideas many of our people endorse extends far enough to cover even treason.

New Deal Lost the War

The only reason for reminding ourselves of this record is that in both its causes and its consequences it is the key factor in the situation and outlook in America today. All of the painful problems we face—those of inflation, higher taxation, war controls, rearmament and mobilization, and perhaps war, are the offspring of that record and the ideas that were behind it, not merely the result of our bad luck in those we employed to carry them out. It may be too much to say that if we had not had the New Deal we would not have the second World War; but it is true in a deep sense that without the New Deal we wouldn't have lost it. If we hadn't believed so much in the great illusion of government—big government at home, and world government abroad; if we hadn't believed so much in the magic of government money, in the delusion that dollars would buy anything, including freedom, peace, prosperity and security for the rest of the world, we wouldn't have lost the war; and if we hadn't been defeated, as we were, in the purpose for which we fought it, we wouldn't today be facing a Marshall Plan and all the other problems I mentioned that it implies. It is convenient and easy to blame these problems on Communism, but our most dangerous enemy has been our own errors, delusions and stupidities, of which we should not complain that Uncle Joe took full advantage, and still does. All the 20 billions we spent in aid abroad in the period since the war was suspended, most of which ended up in his hands or strengthened them, is part of the testimony to the truth of this, and there is much more to come as we begin to realize some of the implications and complications of the European Recovery or Rearmament Program for our own economy.

Marshall Plan Outgrowth of Keynes and New Dealism

The most important fact about it is that it is an attempt to apply on a permanent and systematic international basis the economic ideas about the duty and capacity of government to underwrite and maintain the purchasing power of the market which have guided our domestic policies during the past fifteen years, and which we tried out in our foreign policies since the war in a somewhat piecemeal and uncertain fashion. These ideas, which the New Deal medicine men invented, developed and implemented with the inspiration and aid of John Maynard Keynes are generally accepted and supported by all groups of the American public today, as they are abroad in the socialist countries whose economies are based on them. So there has been practically no opposition to the Marshall Plan as a public spending program to prevent the usual postwar deflation and maintain prices, wages and employment in this country—all popular purposes for everyone at any time, and especially for political incumbents in an election year. But what began in the past year as a temporary anti-deflation measure has been swiftly transformed and expanded by circumstances and events, or by design, into a permanent and comprehensive economic and military program which involves the restoration of a war economy and probably its extension on a considerably broader scale than we saw last time.

Whether the circumstances or the design were more important in this development is doubtful and unimportant. The appetite and drive for more power is always present in government, and has been richly fed and stimulated in this country during the past decade or two. But experience as well as theory has proven that whenever government undertakes to underwrite the market for business and labor by public spending policies, the inescapable outcome is more and more comprehensive control of the economy. These policies won't work when the market for commodities, labor and money is left in any measure free. They always break down through uncontrollable inflation and collapse of production, and so every country that has based its policies upon the principle of supporting the market by government spending has become sooner or later a completely controlled or planned economy, with the State ultimately operating or owning most of the business and employing most of the labor.

Internationalization of Our Economy

Whatever its military justification or significance may be, this is what the Marshall Program means for our domestic economic outlook. In effect it internationalizes the American economy, opens it to practically unlimited drain upon its manpower and material resources for purposes of supporting the capacity or defending the power of foreign governments to underwrite and control their markets, and so makes our economy inevitably subject to government control much more comprehensive than we saw in the recent war. In the event of overt war such control will of course be prompt and complete, and, starting from where we left off three years ago, the consequences will almost certainly make it permanent. But whether or not conflict becomes active, it it clear that this country is already returning fairly rapidly to the compulsory collectivism and controls of a war economy, from which it will not soon escape, in consequence of foreign policies which sacrificed the fruits of victory, fed the political appetite for power, and were founded on the fallacy of supporting the consumer market at home and abroad with public money. Naturally the statesmen who determine our destinies deny that these consequences were intended, or disclaim responsibility for them, or deplore them as a necessary evil temporarily to be endured for the defense of democracy or free enterprise abroad; but these pious protestations and regrets do not retard their relentless realization, nor does anything in the public attitude toward them so far.

I have taken so much time to talk of these things because everything about the current economic and political situation in this country, as well as its freedom and safety for the future, revolves around this cruel dilemma or trap in which we have let ourselves be caught; yet it is impossible to foresee or even imagine the outcome. So far as future conflict with Russia is concerned, I have always believed that her opposition to the Marshall Plan, as well as all of her policies in the United Nations since the war have been designed to incite and ensure its adoption, for if she had to devise a strategic plan calculated to harass and weaken the United States it would be impossible to invent one more advantageous than the Marshall Plan and its forerunner, the Truman Doctrine. By them we have been maneuvered into a position that commits us to an unlimited economic and military war expenditure on innumerable, constantly shifting fronts all over the world for an indefinite time, through which Russia can slowly drain away our resources, bleed this country to death, and impose upon us a form of totalitarian collectivism sufficient for her purpose almost without firing a shot or emerging from behind her iron curtain or out of her cave, until she feels we have been so weakened and demoralized that she can safely move in for the kill and take over what she wants, which she knows she has no power to do now, or for some time to come.

Use of the Atomic Bomb

It was realization of this that moved me two years ago to suggest the use of our power with the atomic bomb to persuade, compel or impose disarmament upon Europe and Russia rather than let matters drift till we ended with the rearmament program we now face, and the prospect of exhaustion, inflation and regimentation which it implies; but all I accomplished was to win second place on Mr. Vishinsky's honor list of war mongers. The American public was not ready for anything like that then, and now it is too late. As matters stand we are compelled and irrevocably committed to settle our conflict with Russia in the most expensive, prolonged and difficult fashion, and though it will probably finally defeat her and undoubtedly create an enormous amount of "purchasing power" here and abroad, it will leave America as well as Europe with less freedom and less prosperity and less security than before.

Grafting Socialist Government Will Waste Our Wealth

Most of our surplus purchasing power which the Recovery Plan supplies to Europe will be absorbed by the burdens of armament, conscription and bureaucracy, and the waste, extravagance and graft of the socialist governments that dominate all of Europe today, and which can remain in office only if they can avoid or defer deflation by maintaining complete economic control and underwriting their consumer market with American money. Success in attaining any of the economic goals of the plan in terms of production was always unlikely or impossible because there is not enough power, manpower and materials available for it since the economic balance between Eastern and Western Europe was destroyed by our policy toward Germany; but the rearmament and remobilization of Western Europe now makes its failure as an economic program certain. Of all the forms of pyramid building that politicians have devised to underwrite consumer purchasing power, armament and conscription put the severest strain on economic resources and involve the most comprehensive controls of the economy because they make such extensive demands on materials, equipment and manpower.

Inflating Politics

Whatever may happen in Europe or the rest of the world as a result, the incurable disposition of politicians everywhere to govern by putting public money in the pockets of their people, and then protecting them from the consequences by taking control of their economic affairs thereafter—as well as our tendency to aid and abet everybody abroad who wants to continue governing on that principle—has left Americans facing some painful problems in our economic affairs here at home, beneath the pleasant surface which the situation presents to us these days.

Of these the first and most formidable is whether and how we can control and overcome the consequences of the chronic and acute inflation in which we are caught as a result of the war and of the foreign and domestic policies we have pursued since. We should make no mistake about this. We are now in the most powerful, pervasive and comprehensive inflation process the world has probably ever experienced,

and the fundamental fact about it is that it is primarily a political inflation, an inflation of government, by government and for government, a product of political ideas and purposes, an instrument of the foreign and domestic policies I have described, rather than of economic factors over which business management has much control.

It is not merely, as we sometimes assume, that an immense amount of fake money was manufactured by deficit financing and monetizing public debt during and since the war, and distributed abundantly here and abroad to support or force consumption, and maintain and expand the power of government to plan and manage the economy. The exercise of that power itself has everywhere diminished or retarded the growth of productivity, discouraged or ended savings and investment, reduced the rise in the standard of living which would otherwise have been possible, and fostered class and industrial conflict.

We Are Really Poorer

It is a delusion to suppose that the world or the United States is richer as a result of the war and the inflation that followed it, because prices, wages and incomes have risen so much. Not only is its production and productive power less than they would have been, because of the destruction of wealth and life it entailed, but in this country alone, as a result of the shrinking value of the dollar since 1939 Americans have already lost nearly a third of all their savings, in bank deposits, life insurance and government bonds—much more than they lost in the bank closings of the Great Depression, which you remember has been ascribed to government's failure to underwrite the consumer market and maintain wages and prices. One can see no end to this process if current policies and plans of public spending and the prevailing public attitudes toward it continue, and the European recovery and rearmament program alone means its indefinite prolongation and expansion, for there is no possible way of putting limits to it, when foreign events control, and Russia calls all the turns in the dance, and we must pay the piper.

Not much more can be said about the business situation and outlook in this country today. In almost every respect it is shaped by persistent and pervasive inflationary forces which are dominated by government spending and controls, which in turn are determined by international conditions and our policies toward them. Nothing in the picture indicates the prospect of any important change in these factors or their effects upon wages, prices, employment, labor conditions, consumption or investment in the near future. At the beginning of last year there were signs that the gas in the postwar inflation boom was giving out, until the proposal of the Truman Doctrine and the Marshall Plan put forth the promise of another spell of government spending and forced consumption, and delay in placing the orders and getting out the checks has caused some slackening of activity in certain lines in recent months; but these fluctuations only emphasize the extent to which our economy has become governmentalized as well as internationalized during the past fifteen years by prolonged addiction to the dope of public spending.

Shots in the Arm Must Be Increased

It is misleading to suppose, as the official soothsayers and economic medicine men on the Potomac would have us, that the additional dose administered by the foreign recovery and rearmament program is so small in comparison with the current annual consumption of public money measured by the national income figures that it can't stimulate the economy very much. We know that when an economy becomes dependent upon this kind of drug the shots in the arm usually have to be ever larger and more frequent; but in the present situation the patient's system is so saturated with it, we are so close to the ceilings of production capacity and manpower, and there is so little slack in at least nominal employment and machine time in many lines that the additional dose will probably have an effect out of proportion to its size. Besides, we are only at the beginning of this spending spree; the medicine is weaker because the value of the dollar has been diluted, and since the patient's safety is at stake, the doctor will not be able to limit the dose or deny him the bottle any more.

So we may expect prices and wages to continue rising, with variations and fluctuations as government intervenes in the market in one way or another from time to time, until comprehensive controls are restored. After election, too, we shall probably begin to run Federal deficits again and taxes will be raised. Since we shall be starting about where we left off last time all these things will be on a new level. Taxes will take on more and more the character of capital levies, and production or employment controls will develop into allocation and direction of labor and government fixing of wages. Rationing of consumption, compulsory saving and direction of investment are also in the cards in this great game of government planning which is being resumed, even under the auspices of a Republican Congress, and before an election in which it is expected that the relics of the New Deal will be relieved of office.

All these things are in the cards because they are a logical and inevitable sequence of governmentizing and internationalizing our economy which has been proceeding steadily during the past 15 years or more. All political parties and all groups in the country have participated in that process in some way and some degree, by demanding or depending upon the apparent or immediate benefits or advantages of some aspect of public expenditure or control. Since one cannot expect public employees or officials to oppose such expansion of power and activity as this process involves, the combined pressure of this universal dependency upon government spending or of public indifference to and ignorance of its consequences has been too much for any free market economy to stand—even one as vigorous as ours. It is a kind of natural law that when government begins to handle more than a quarter of a country's income it inevitably becomes the controlling or dominant factor in the whole economy, and it is impossible for anything like a free competitive market in commodities, labor or capital to survive, except at the fringes or on the surface. The idea of free enterprise has survived as a subject for sentimental speeches and advertising slogans and educational campaigns; but the fact is that real and effective economic freedom has largely disappeared in the United States, as it has elsewhere in the world, and it will require a drastic revolution of thought and action to restore it.

To many ardent devotees and crusaders for democracy and freedom abroad it has become mainly or merely a matter of electoral machinery, of freedom to choose the particular form of slavery, the special mixture of government controls and subsidies, which seems most convenient or comfortable or fashionable at the moment. By a strange inversion or perversion of thought, liberalism, in which all the best people believe, has become any policy which promotes larger spending of public money and more State control of individual initiative, effort, enterprise, income, savings, investment and consumption. It sometimes seems these days as if what we and most of our European allies against Communism really object to in it is mainly its bad manners, disagreeable customs, its unpleasant public officials and its excessively simple voting system, and not its economic ideas and institutions, or its attitude toward the economic freedom of the individual.

When we consider these things, our international policy during the 15 years is much more consistent than it seems. After all, the now prevalent idea that this country, the richest and most productive, cannot get along or even survive without supporting the rest of the world is merely an extension of the generally accepted assumption that the prosperity and security of the American people now depends upon support and control by their government. We must realize that along with the domestic and international collectivizing of our economy has gone a corresponding governmentalizing and internationalizing of the American mind, which has moved more and more of our people among all groups to think in terms of State power, responsibility and action in connection with all important problems of life that arise at home and abroad.

These are some of the conditions and tendencies that lie beneath the problems of public and industrial relations which preoccupy so many among business management in these days of labor disorder and political difficulties. It is beyond the scope of this discussion to consider how they could be met or whether some of the current efforts to deal with them are adequate. If it were only or mainly a question of more effective handling of the human aspects of employment relations in the individual plant or company they would not be so baffling. There are fairly well known and successful techniques of personnel administration which have been developed and could be more widely applied by business leadership, and they doubtless would be helpful in promoting more harmonious management-labor relations; but I believe the problem involved is broader, deeper and more difficult than that.

Psychological Elements in Labor Trouble

For one thing, research indicates that a large part of the friction in labor relations, and possibly much of the public attitude toward industry, has its roots in frustrations, conflicts, maladjustments and other psychological factors which arise from conditions outside the work-place or the company, in family and community relations and other elements in the social environment of the individual over which the employer or industry itself has no control or influence—or none that it is now aware of. There is some understanding of what these factors that affect the behavior and ideas of great masses of employees toward employers, and how they have developed with the growth of our industrial civilization and the disintegration of the influence of such powerful social institutions as the family, the church, and the local community. It is obvious that business alone cannot deal with them, and it doesn't know what it could do about them beyond the effect that the policies of individual companies may have on their own employees, or their relation to the communities in which they operate.

The methods and devices that have been developed and tried in attempts to shape general public opinion and policies toward business are probably not harmful in most cases, but it seems to me very doubtful that they have had any very large or lasting effect upon attitudes and ideas toward employers and business enterprise among the mass of the American people. In fact the evidence is rather that business has lost a great deal of ground during the past two decades so far as their interest, esteem and sympathy, and any broader understanding of the meaning and importance of a free competitive capitalistic enterprise economy are concerned, though during this period business and industry have tried to present themselves and their operations favorably to the public by every known publicity device and under the direction of the most skilled agencies.

There are probably many reasons why business has failed to make the public love it for this, but we don't know much about them yet.

Deep beneath the prevalent public attitude toward business I believe there lie those fundamental conditions and tendencies I have called the governmentalizing and internationalizing of the American economy and the American mind, the spreading faith in the unlimited power, responsibility, wisdom and benevolence of government and public officials, in their intrinsic altruism, and in the potency and virtue of the public money which they dispense, like holy water, at home and abroad, to which no taint of self-interest attaches and which cures all ills and evils. It is not merely that the capacity of business to satisfy their needs and desires, automatically, without effort, sacrifice or risk, is taken for granted, but that government, or the State has become more or less unconsciously the great disinterested, idealistic and benevolent force that somehow, especially by the spell of public money, commends and directs the magical productive power of modern industry and technology for the welfare of the public—and of the world, too, where America is concerned.

This deification of their government and subordination of their business system in the mind of the American people, both in relation to their community life, and now in relation to the rest of the world, seems to me the root of what we call the public relations problem of business, and its effects can be overcome only by attacking it at the root, by exposing the clay feet of the modern-day god of government, by destroying the new delusion or superstition of the omnipotent, omniscient providential State which has subjected the minds of millions to its spell.

This is no time to consider whether or how that can be done, and how business leadership can help. Painful experience may ultimately do most of the job through such a process of financial, economic and moral insolvency as we have seen taking place among the governments of Europe (and which we are trying to postpone by our aid programs); but that is likely to leave little behind upon which a free business system could rebuild itself, save over a long time. To avoid that outcome and overcome the drug-habit of government which leads to it will require a vast and powerful effort to revitalize the force and faith of individualism in the economic and political life of the American community, and the patriotism which is its counterpart in international relations. Such an effort must begin not among the masses, as we commonly assume, but at the top, among the comparatively small group in the community, including business leaders, whose attitudes and ideas and actions finally shape the form and pattern of opinion and feeling and provide the inspiration and example for the many among the public. It is among these that the domestic and international collectivist movement has had its most important victories and its strongest allies, and it is there that the cause of individualism and patriotism, the coming struggle against the Supreme State, both national and international, will ultimately be won or lost. We must not expect or depend upon the man in the street to win it for us.

G. Brashears Adds

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF. — G. Brashears & Company, 510 South Spring Street, members of the Los Angeles Stock Exchange, have added Afred H. Raines to their staff.

With Coburn & Middlebrook

(Special to THE FINANCIAL CHRONICLE)

HARTFORD, CONN. — George F. Johnson III is with Coburn & Middlebrook, 37 Lewis Street, members of the New York Curb Exchange.

With C. E. Abbett & Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF. — Lon Amick is with C. E. Abbett & Company, 3277 Wilshire Boulevard.

Oscar A. Schwabe Dead

Oscar A. Schwabe, an associate of Kuhn, Loeb & Co. for 38 years until his retirement in 1942, died after a brief illness. within two days of his 70th birthday.

With Frank D. Newman Co

(Special to THE FINANCIAL CHRONICLE)

MIAMI, FLA.—Mrs. Marion H. Taylor has joined the staff of Frank D. Newman & Co., Ingraham Building.

Securities Now in Registration

● INDICATES ADDITIONS SINCE PREVIOUS ISSUE

Air Lanes, Inc., Portland, Me.
April 26 (letter of notification) 10,000 shares of preferred stock and 10,000 shares of common. **Price**—Preferred, $10 per share and common 1 cent. For plant and equipment costs and working capital. **Underwriter**—Frederick C. Adams & Co., Boston.

● **American Broadcasting Co. (5/17)**
May 6 (by amendment) filed 500,000 shares ($1 par) common stock. **Underwriter**—Dillon, Read & Co., New York. Price by amendment. **Proceeds**—To pay off indebtedness and expand television services. **Business**—Broadcasting network.

● **American Coach & Body Co., Cleveland**
May 7 (letter of notification) 10,112 shares ($5 par) common stock. To be sold at $12 each to Robert W. Hadley, President of the company, and Harold F. Smith, Treasurer, for working capital. No underwriting.

● **American Loan & Insurance Co., Hamilton, Ohio**
May 3 (letter of notification) 1,944 shares of 6% non-cumulative preferred stock (par $100) and $100,000 of debenture notes. To finance small loan and discount business.

Ampal-American Palestine Trading Corp., N. Y.
April 7 filed $10,000,000 10-year 3% sinking fund debentures. **Underwriter**—Name to be filed by amendment, if any is used. **Proceeds** — $5,000,000 in mortgage loans for construction of housing in Palestine, $2,500,000 in loans to transportation and industrial cooperatives, and $2,200,000 in loan to Solel Boneh, Ltd., for public works.

Anchor Steel & Conveyor Co., Detroit
April 19 (letter of notification) 100,000 shares ($1 par) common stock for company and 20,000 shares for Frank J. Shude, President. **Price**—$2.50 each. **Underwriters**—C. G. McDonald & Co., Detroit and Investment Securities Co., Jackson, Mich. For working capital.

Angus Mines, Ltd., Montreal, Canada
Feb. 12 filed 600,000 shares of common capital stock ($1 par). **Underwriter**—James A. Robb, 70 Pine St., New York. **Proceeds**—To develop gold prospects.

Bankers Fire & Marine Insurance Co., Birmingham, Ala.
April 27 (letter of notification) 25,845 shares of common stock. **Price**—$8. To be sold to existing stockholders only. To increase capital and surplus. No underwriting.

Bareco Oil Co., Tulsa, Okla. (5/18)
April 26 filed 162,435 shares ($1 par) common stock. **Underwriter**—Kebbon, McCormick & Co., Chicago. **Price**—$7 each. Shares are owned by the Phillips Petroleum Co.

● **Bayshore Industries, Inc., Elkton, Md.**
May 3 (letter of notification) 1,000 shares ($100 par) preferred stock. Price, par. For working capital and plant expansion. No underwriting.

Bristol-Myers Co., New York (5/14)
April 23 filed $10,000,000 20-year debentures. **Underwriter**—Wertheim & Co., New York. Price and interest rate to be filed in an amendment. **Proceeds**—To pay off bank loans and improve working capital position.

California Electric Power Co., Riverside, Calif.
May 3 filed $2,500,000 first mortgage bonds, due 1978. **Underwriters**—Names to be determined by competitive bidding. Probable bidders include: Blyth & Co. Inc.; Halsey, Stuart & Co. Inc.; Kidder, Peabody & Co.; Harriman, Ripley & Co. **Proceeds**—To retire bank notes and for construction.

● **Casablanca (H.), Inc., New York**
May 7 (letter of notification), 25,000 shares of common stock (par $6.50). **Price**—$9 per share. **Underwriting**—none. Expansion, etc.

Central Maine Power Co.
Nov. 10 filed 160,000 shares ($10 par) common. **Underwriting**—Company called for competitive bids Dec. 8, 1947 and only one bid, that of Blyth & Co., Inc. and Kidder, Peabody & Co. was submitted and was rejected by the company. They bid $13.75, less $1.75 underwriting commission. Now expected on negotiated basis through Blyth & Co., Inc. **Offering**—To be offered to 6% preferred and common stockholders for subscription on the basis of one-half share of new common for each preferred share and one-tenth share of new common for each common share held. Price by amendment. **Proceeds**—For construction and repayment of bank loans.

Central Power & Light Co.
Nov. 21 filed 40,000 shares ($100 par) cumulative preferred. **Underwriters**—Lehman Brothers; Glore, Forgan & Co., Dewar, Robertson & Pancoast. **Proceeds**—For property additions and expenses. On April 15, SEC denied effectiveness of registration statement.

Central Vermont Public Service Corp.
March 30 filed $1,500,000 Series E first mortgage bonds and 360,000 shares (no par) common stock. **Underwriters** of common by amendment (probably Coffin & Burr). Bonds to be placed privately. **Proceeds**—For a construction program and repair of flood damages.

Century Steel Corp., Hollydale, Calif.
Nov. 10 filed 4,000 shares ($100 par) common. **Underwriting**—None. Shares will be sold at par by directors. **Proceeds**—To purchase rolling mill, equipment and for working capital.

Challenger Airlines Co., Salt Lake City, Utah
March 1 filed 600,000 shares ($1 par) common stock, of which 400,000 are being sold for the company and 200,000 for the account of Claude Neon, Inc. **Underwriting**—None. **Price**—$2 a share. **Proceeds**—For equipment purchase and general funds.

● **Chicago Fruit Auction Co.**
May 6 (letter of notification) $300,000 of common stock ($8 par). **Price**—$10 each. For working capital. No underwriting.

Clinton (Iowa) Industries, Inc.
March 26 filed $7,000,000 15-year debentures, due 1963. **Underwriters** — Smith, Barney & Co., New York and Newhard, Cook & Co., St. Louis, Mo. **Proceeds**—To repay a $1,500,000 bank loan to J. P. Morgan & Co., Incorporated and purchase outstanding stock of American Partition Corp. and its sales affiliate. Indefinite.

Clinton (Mich.) Machine Co.
April 15 (letter of notification) 10,000 shares of stock to be sold at $5⅛ each (market price), for selling stockholder. **Underwriter**—Charles E. Bailey & Co., Detroit.

Consolidated Edison Co. of N. Y., Inc. (5/18)
March 1 filed $57,382,600 of 3% convertible debentures, due 1963. Convertible into common stock at $25. **Offering**—Common stockholders of record May 20 will be given right to subscribe for debentures in ratio of $5 of debentures for each share held. Rights will expire June 8. **Underwriting**—Unsubscribed debentures will be offered at competitive bidding. Probable bidders: Morgan Stanley & Co.; Halsey, Stuart & Co. Inc.; The First Boston Corp. **Proceeds**—To redeem 273,566 shares of outstanding $5 cumulative preferred stock and to reimburse treasury for expansion expenditures, &c. **Bids**—Bids for the underwriting of the debentures will be received up to 11 a.m. (EDT), May 18, at office of company, 4 Irving Place, New York City.

Consolidated Vultee Aircraft Corp.
May 5 filed 1,159,849 shares ($1 par) common stock. **Offering**—To be offered present stockholders at the rate of one new share for each one held. Atlas Corp., holder of 11.4% of outstanding consolidated stock, will exercise its subscription rights to purchase enough stock to assure Consolidated a return of $7,000,000 from the stock offering. **Underwriting**—None. Price by amendment. **Proceeds**—Added to general funds for manufacture of commercial transport planes.

Consumers Cooperative Assoc., Kansas City, Missouri
Oct. 16 filed $1,000,000 4% non-cumulative common stock ($25 par); $4,000,000 of 3½% certificates of indebtedness cumulative; and $1,000,000 of 1½% loan certificates cumulative. No underwriting. **Offering**—To the public. Common may be bought only by patrons and members. **Price**—At face amount. **Proceeds**—For acquisition of additional office and plant facilities.

Crampton Manufacturing Co.
Feb. 5 filed $600,000 first mortgage 5½% sinking fund bonds, due 1966, with warrants to purchase 60,000 shares ($1 par) common stock. **Underwriter**—P. W. Brooks & Co., Inc., New York. **Proceeds**—To retire secured indebtedness, finance inventories and supplement working capital.

Derst Baking Co., Savannah, Ga.
April 30 (letter of notification) 14,750 shares of 6% cumulative preferred stock ($20 par). **Price**—Par. **Underwriter**—Johnson, Lane, Space & Co., Inc., Savannah. To construct a new bread plant.

Dixie Fasteners, Inc., Chattanooga, Tenn.
April 14 (letter of notification) 75,000 shares of class B common stock (no par) of which 45,000 will be offered to the public at $1 each. For additional working capital, machinery and equipment.

● **Dryomatic Corp. of America, Baltimore, Md.**
May 4 (letter of notification) 23,000 shares (50¢ par) common stock. **Price**—$3.75 each. **Underwriter**—Mitchell-Hoffman & Co., Inc., Baltimore. For working capital.

● **Dulany (John H.) & Son, Inc.**
May 4 (letter of notification 3,000 shares of Class A 6% cumulative preferred stock ($100 par). Price, par. For working capital. No underwriting.

Equipment Finance Corp., Chicago, Ill.
Feb. 26 filed 15,000 shares ($100 par) preferred stock. **Offering**—To be sold to employees and officers of the company and its parent, Curtiss Candy Co. **Price**—$100 per share. **Proceeds**—To be used for trucks in connection with the Curtiss' franchise method of distribution.

● **Equitable Gas Co., Pittsburgh, Pa.**
May 6 filed $14,000,000 first mortgage bonds, due 1973. **Underwriters**—Names to be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co., Inc.; The First Boston Corp.; Kuhn, Loeb & Co. and Smith, Barney & Co. (jointly); W. C. Langley & Co. and Glore, Forgan & Co. (jointly); Harriman Ripley & Co.; White, Weld & Co. **Proceeds**—$14,000,000 of proceeds, plus 563,000 shares of new common stock, will be delivered to the Philadelphia Co. in exchange for natural gas properties now under lease, outstanding capital stock of Equitable, notes and other claims owed to the Philadelphia Co. and to the Pittsburgh and West Virginia Gas Co.

● **Federal Industries, Inc., Detroit**
May 6 (letter of notification) 10,000 shares ($1 par) common stock. **Price**—$1 each. To be sold by Drew C. Haneline, President of the company. **Underwriter**—C. G. McDonald & Co., Detroit.

Fission Mines Ltd., Toronto, Canada
April 16 filed 200,000 shares of treasury stock. **Underwriter**—Mark Daniels & Co., Toronto. **Price**—$1 a share. **Proceeds**—For mining and business costs.

Fitzsimmons Stores, Ltd., Los Angeles, Calif.
Feb. 2 filed 10,000 shares of 6% cumulative first preferred stock ($100 par). **Underwriting**—Officers, directors and employees of the company will offer the stock to friends and associates. **Price**—$100 per share. **Proceeds**—To retire 7% preferred stock. Business: "Super Markets" in Los Angeles, Riverside, Colton and San Bernardino County.

● **Florida Power & Light Co. (6/8)**
May 6 filed $11,000,000 first mortgage bonds, due 1978. **Underwriters**—Name to be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Harriman Ripley & Co.; Lehman Brothers; Drexel & Co. **Proceeds**—To pay off $4,000,000 in indebtedness owing to the Central Hanover Bank & Trust Co., New York, and to meet construction costs. Expected about June 8.

Flotill Products, Inc., Stockton, Calif.
March 6 filed 385,000 shares of 60 cent convertible preferred stock (par $5) and 325,000 shares of common stock (par $1). **Underwriter** — Floyd D. Cerf Co., Chicago. **Price**—preferred $10; common $6. **Proceeds** — Stockholders will sell 260,000 preferred shares and 250,000 common shares and company 125,000 preferred shares and 75,000 common shares. Company's proceeds will be used for general corporate purposes.

● **Foote Mineral Co., Philadelphia (5/17)**
May 10 (letter of notification) $3,000 shares of common stock (par $2.50). **Price**—$40 per share. **Underwriter**—Estabrook & Co., New York. General corporate purposes.

● **Foote Mineral Co., Philadelphia**
May 10 (letter of notification (1,500 shares of common stock (par $2.50) To be offered direct to employees at $37 per share. General corporate purposes.

NEW ISSUE CALENDAR

May 14, 1948

Bristol-Myers Co. — Debentures

May 17, 1948

American Broadcasting Co. — Common
Foote Mineral Co. — Common
Playboy Motor Car Corp. — Common

May 18, 1948

Bareco Oil Co. — Common
Consolidated Edison Co. of N. Y. Inc. 11:00 a.m. (EDT) — Debentures

May 19, 1948

Smith (Alexander) & Sons Carpet Co. — Preferred

May 21, 1948

Reading Co., noon (EDT) — Equip. Trust Ctfs.

May 24, 1948

Sierra Pacific Power Co. — Bonds

May 25, 1948

Gamble-Skogmo, Inc. — Preferred
National Gypsum Co. — Common
Union Electric Co. of Mo. — Debentures

May 26, 1948

South Carolina Electric & Gas Co. — Pref. & Com.

June 1, 1948

New York State Electric & Gas Co. — Preferred
Segal Lock & Hardware Co., Inc. — Debentures

June 2, 1948

Illinois Bell Telephone Co. — Bonds

June 7, 1948

Joseph J. O'Donohue IV — Bonds

June 8, 1948

Florida Power & Light Co. — Bonds

June 14, 1948

Kansas City Power & Light Co. — Bonds and Pref.

Fraser Products Co., Detroit, Mich.
Oct. 21 filed 100,000 shares ($1 par) common. **Underwriters** — Campbell, McCarty & Co., and Keane & Co., both Detroit. **Price**—$5.25 per share. **Proceeds**—The shares are being sold by 14 stockholders who will receive proceeds. Registration statement effective Jan. 16.

● **Fremont Oil Syndicate, Inc., Denver**
May 7 (letter of notification) 25,000 shares ($1 par) common stock. **Price**—$1.25 each. For drilling a well in Boulder City, Colo. No underwriting.

Gamble-Skogmo, Inc., Minneapolis (5/25)
March 30 filed 120,000 shares ($50 par) cumulative preferred stock, convertible prior to July 31, 1958. **Underwriters**—Goldman, Sachs & Co. and Merrill Lynch, Pierce, Fenner & Beane, New York, and Piper, Jaffray & Hopwood, Minneapolis. Price by amendment. **Proceeds**—To reduce short-term bank loans totaling $13,-850,000.

● **George Washington Memorial Park, Inc., Whitemarsh, Pa.**
April 28 (letter of notification) 2,500 shares of 5% non-cumulative preferred stock (par $100). To be substituted for 2,000 shares cumulative preferred stock outstanding, on basis of 5 new for each old 4 shares outstanding.

● **Harzfeld's, Inc., Kansas City, Mo.**
May 3 (letter of notification) 2,980 shares of 1948 series prior preferred stock ($100 par). Price, par. **Underwriters** — George K. Baum & Co. and Prescott-Wright-Snider Co., Kansas City. For general funds and working capital.

Illinois Bell Telephone Co. (6/2)
April 30 filed $60,000,000 series B first mortgage bonds, due 1978. **Underwriters**—Names determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.; Glore, Forgan & Co. **Proceeds**—To be applied toward repayment of advances from A. T & T. for general corporate purposes. Expected June 2.

International Asbestos Co., Ltd., Sherbrooke, Quebec
Jan. 30 filed 1,500,000 shares ($1 par) common stock. **Underwriter**—Paul E. Frechette, Hartford, Conn., is the U. S. authorized agent and principal underwriter. **Price**—$1 each. **Proceeds**—To construct milling plant and purchase equipment.

Island Air Ferries, Inc., Bohemia, N. Y.
May 4 (letter of notification) 40,000 shares of common stock (par $1). **Price**—$2.50 per share. **Underwriter**—E. P. Frazee & Co., Inc. Funds for purchase of equipment and facilities and working capital.

● **Jackson & Church Co., Saginaw, Mich.**
May 4 (letter of notification) 2,000 shares of Class A preferred stock. **Price**—$100. To expand manufacturing lines. No underwriting.

Kansas Soya Products Co., Inc., Emporia, Kans.
Dec. 3 (letter of notification) 3,157 shares ($95 par) preferred. **Price**—$95 a share. **Undewriter**—Kenneth Van Sickle, Inc., Emporia. For additional working capital.

● **Kloman Corp., Washington, D. C.**
May 5 (letter of notification) 2,700 shares ($100 par) preferred stock and 20,000 shares ($1 par) common stock. Price, par. To retire $100,000 of first mortgage indebtedness, pay alterations, and for working capital.

Kool-Aid Bottling Co., Inc. of Calif., Sheboygan, Wisconsin
March 22 filed 1,500,000 shares ($1 par) common stock. **Underwriter**—Heronymus & Co., Sheboygan, Wis. **Proceeds**—To open and equip bottling plants in California cities. **Price**—$1 per share.

● **Lakeside Laboratories, Inc., Milwaukee, Wis.**
May 7 (letter of notification) 1,000 shares ($1 par) common stock. **Price**—$6.50 each. **Underwriter**—Loewi & Co., Milwaukee. For working capital.

Legend Gold Mines, Ltd., Toronto, Canada
June 27 filed 300,000 shares ($1 par) common treasury stock. **Underwriting** — To be supplied by amendment. **Price**—50 cents a share. **Proceeds**—To develop mining properties.

Le Roi Co., Milwaukee
April 19 (letter of notification) 30,000 shares ($2.50 par) common stock. **Price**—$4.875. To reduce bank loans. No underwriting.

Link-Belt Co., Chicago
April 21 filed 11,845 shares (no par) value common stock. **Offering**—To be sold to certain officers and key employees of the company and its subsidiaries. Underwriting, none. **Price**—$46 each. **Proceeds** — Working capital.

Lonsdale Co., Providence, R. I.
April 26 filed 1,192,631 shares ($1 par) common stock. **Offering**—To be offered to holders of common stock of Textron, Inc., at rate of one new share for each one held. An additional 60,000 shares will be issued to officers, directors and some employees of the newly organized company. **Underwriters**—For unsubscribed shares Blair & Co., Inc., and Maxwell, Marshall & Co., New York. Price by amendment. **Proceeds**—To be applied to the purchase price for an existing textile firm known as Lonsdale Co., a Textron subsidiary.

Merrimac Mills Co., Methuen, Mass.
April 19 (letter of notification) 50,000 shares ($5 par) common stock, to be sold at par to stockholders. For working capital. No underwriting.

● **Myopia Hunt Club, South Hamilton, Mass.**
May 4 (letter of notification) $60,000 of improvement and refunding 3% mortgage bonds. To refund mortgage indebtedness and for deferred maintenance. No underwriting.

Nalley's Inc., Tacoma, Wash.
Jan. 15 filed 119,152 shares of common stock (par $1.25). **Underwriters**—Walston, Hoffman & Goodwin and Hartley, Rogers & Co. **Offering**—63,785 shares are to be publicly offered (25,000 on behalf of company and 38,785 for account to Marcus Nalley, Chairman); 20,000 shares will be offered to employees, executives and directors and 35,367 shares are to be issued in acquisition of all publicly held stock or partnership interests in certain subsidiary and affiliated companies. Indefinite.

Narragansett Electric Co.
March 30 filed $10,000,000 Series B first mortgage bonds, due 1978. **Underwriter**—To be determined under competitive bidding. Probable bidders include: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Kidder, Peabody & Co. and Stone & Webster Securities Corp. (jointly): White, Weld & Co.; Lehman Brothers and Goldman Sachs & Co. (jointly). **Proceeds**—To reduce short-term loans and continue a construction program. Expected this month.

● **National Dairy Products Corp.**
May 12 filed $30,000,000 of debentures, due 1970. **Underwriters**—Goldman, Sachs & Co. and Lehman Brothers, New York. Price and interest rate to be filed by amendment. **Proceeds**—To be added to general funds for a plant and equipment replacement program for the company and subsidiaries. **Business**—Dairy products holding company.

National Gypsum Co., Buffalo, N. Y. (5/25)
April 20 filed 422,467 shares ($1 par) common stock. **Underwriters**—W. E. Hutton & Co. and Blyth & Co., Inc., New York. **Price**—$13.50. **Offering**—Offered stockholders of record May 10 at the rate of one new share for each four held. Rights expire May 24. **Proceeds**—For working capital.

New York State Electric & Gas Corp. (6/1)
April 30 filed 35,000 shares ($100 par) cumulative preferred stock. **Underwriters** — Names by competitive bidding. Probable bidders include: Harriman Ripley & Co.; Hemphill, Noyes & Co. and Drexel & Co. (jointly); Kidder, Peabody & Co.; W. C. Langley & Co.; Lehman Brothers and Glore, Forgan & Co. (jointly). **Proceeds**—To be applied toward a construction program. Expected June 1.

North Canadian Oils Limited, Calgary, Alberta
March 11 filed 903,572 shares (no par) common stock. **Price**—70 cents each. **Underwriter**—F. H. Winter & Co., New York. **Proceeds**—875,000 shares being sold by company and 28,572 by stockholders. Proceeds for purchase of property and drilling.

North Inca Gold Mines, Ltd.
March 10 filed 666,667 shares of common stock (par $1). **Underwriter**—Transamerica Mining Co., Ltd., Toronto. Proceeds for exploration and development.

● **Nuera Products Co., Denver, Colo.**
May 10 filed 100,000 shares ($10 par) preferred stock, and 20,000 shares ($1 par) common stock. **Underwriting**—None named. **Price**—10 shares of preferred and two of common will be sold for $100. **Proceeds**—To build, furnish and tool a factory and apply close to $500,-000 to working capital. **Business** — Manufacturer of Tampons.

Ocean Downs Racing Association, Inc., Berlin, Md.
Nov. 28 filed 55,900 shares ($10 par) common. No underwriting. **Price** — $10 a share. **Proceeds**—To build trotting and pacing race track near Ocean City, Md.

(Joseph J.) O'Donohue, IV, New York (6/7)
April 30 (letter of notification) $160,000 5.5% sinking fund bonds, series 1948-1973. **Price**—Par. **Underwriter**—Bioren & Co., Philadelphia. Personal and business requirements.

Old North State Insurance Co., Greenville, N. C.
March 15 filed 100,000 shares of capital stock ($5 par). **Price**—$15 each. **Underwriter**—First Securities Corp., Durham, N. C. **Proceeds**—General business purposes.

● **Pennsylvania Manufacturers' Association Casualty Insurance Co., Philadelphia**
May 7 (letter of notification 3,000 shares of capital stock (par $100). **Price**—$100 per share. **Underwriting**—None. To be offered stockholders for subscription. General funds.

Playboy Motor Car Corp. (5/17-21)
Feb. 13 filed 20,000,000 shares common (1c par). **Price**—$1 per share. Not more than 100,000 shares will be offered to employees and officers at 87½ cents per share. **Underwriter**—Tellier & Co., New York. **Proceeds**—For capital equipment and working funds.

● **Public Finance Service, Inc., Philadelphia**
May 6 (letter of notification) $50,000 6% cumulative debentures. This is an offer of recission to the purchasers of the debentures (which were sold privately in December 1947), due to a technical violation of section 5 of the Securities Act.

Reiter-Foster Oil Corp., New York
Jan. 16 (letter of notification) 180,000 shares (50c par) common stock. **Price**—80 cents. **Underwriter**—Frank W. Bennett & Co. For working capital.

● **Rulane Gas Co., Charlotte, N. C.**
May 7 filed 15,000 shares ($50 par) 5½% cumulative convertible preferred stock. **Underwriter**—R. S. Dickson & Co., Charlotte, N. C. **Price**—$50 a share. **Proceeds** — Repay note, purchase of additional equipment, erect bulk storage plant near Wilson, N. C., and office buildings and display rooms at Portsmouth, Va., and Winston-Salem, N. C. **Business**—Distribution of liquefied petroleum gas.

● **Ryniker Hat Corp., Elmira, N. Y.**
May 7 (letter of notification) 100,000 shares of class A stock (par $50 cents) and 25,000 shares of 4½% preferred stock (par $3). **Price**—$5 per unit, consisting of 4 shares of class A at 50 cents per share and one share of preferred at $3 per share. Underwriting, none. General corporate affairs.

Sandy Hill Iron & Brass Works, Hudson Falls, New York
April 12 (letter of notification) 59,000 shares class A participating preferred stock (par $4). **Price**—$5 per share. **Underwriter**—John L. Nolan, Inc., Glens Falls, N. Y. Working capital.

Segal Lock & Hardware Co., Inc. (6/1)
March 24 filed $2,000,000 15-year 6% convertible sinking fund debentures, due 1963. **Underwriter**—Floyd D. Cerf Co., Inc. **Price**—95 (flat). **Offering**—Offered to stockholders of record May 4 on basis of one $100 debenture for each 100 shares held. Rights expire May 28. **Proceeds**—For repayment of two notes and general corporate purposes.

Sierra Pacific Power Co. (5/24)
March 26 filed $3,500,000 first mortgage bonds, due 1978. **Underwriters**—To be determined by competitive bidding. Probable bidders include: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc.; Stone & Webster Securities Corp. **Proceeds**—Construction costs and the payment of $650,-000 to National Shawmut Bank of Boston for construction notes. Expected about May 24.

Smith (Alexander) & Sons Carpet Co. (5/19)
April 29 filed 50,000 shares ($100 par) cumulative preferred stock. **Underwriters**—Morgan Stanley & Co. and Dominick & Dominick, New York. Interest rate and price to be filed by amendment. **Proceeds** — General corporate purposes. **Business** — Manufacturers of wool rug yarn.

South Carolina Electric & Gas Co. (5/26)
Dec. 2 filed 80,858 shares (50 par) 5½% cumulative convertible preferred and 404,293 shares ($4.50 par) common. **Underwriter**—Kidder, Peabody & Co., New York. **Offering**—Offered for subscription by company's common stockholders of record May 11, the preferred at $50 per share on a 1-for-10 basis and the common at $6.50 per share on a 1-for-2 basis. Unsubscribed shares will be offered publicly. **Proceeds**—Proceeds together with other funds will be used to purchase all of the outstanding common of South Carolina Power Co. from the Commonwealth & Southern Corp.

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• Sportsmen's Retreat, Inc., Calico Rock, Ark.
May 5 (letter of notification) 1,500 shares ($10 par) common stock. Price, par. To erect cabins, lodges, and improve property. No underwriting.

• St. Mary's Park Garage, San Francisco
May 3 (letter of notification) $300,000 35-year 6% debentures. Price, par. To construct a garage under St. Mary's Park. No underwriting.

• Standard Oil Co. (New Jersey)
May 11 filed 1,265,255 shares ($25 par) capital stock. **Offering**—To be offered holders of no par value common stock of International Petroleum Co., Ltd., at the rate of three Standard shares for 20 International shares. **Underwriting**—None. **Purpose**—To gain control of International, a Canadian corporation.

Steak 'n Shake, Inc., Bloomington, Ill.
Feb. 2 filed 40,000 shares of 50c cumulative convertible participating preferred stock, ($1 par) and 160,000 shares (50c par) common stock, of which 40,000 will be sold and the remainder reserved for conversion. **Underwriter**—White & Co., St. Louis, Mo. **Price**—$8 for the preferred stock and $2.50 for the common. This stock is being offered by stockholders who are members of the Belt family.

Stearns (F. C.) Hardware, Inc., Hot Springs, Arkansas
March 26 (letter of notification) 2,000 shares of 6% cumulative preferred stock ($100 par). **Price**—Par. **Underwriter**—Southern Securities Corp., Little Rock, Ark. To retire $65,000 of loans and for general working purposes.

• Stokely-Van Camp, Inc., Indianapolis
May 4 (letter of notification) 26 shares of 5% cumulative prior preferred stock ($20 par) and 37 shares ($1 par) common stock. **Price**—pref., $18.50; common $14.625. **Underwriter** — Reynolds & Co., New York. To furnish funds to redeem scrip issued in lieu of fractional shares of stock in exchange for stock in Columbus Foods Corp. and The Hoopeston Canning Co., recently merged into Stokely-Van Camp.

• Stone (L. R.) & Co., Inc., Los Angeles
May 4 (letter of notification) 300,000 shares ($1 par) capital stock. **Price**—$1 each. To increase capacity, and for working capital. No underwriting.

Tabor Lake Gold Mines, Ltd., Toronto, Canada
April 2 filed 300,000 shares (par $1) preferred stock. **Underwriter**—Mark Daniels & Co., Toronto, Canada. **Price**—60 cents a share. **Proceeds**—For mine developments.

Tonopah Divide Mining Co., Reno, Nev.
April 19 (letter of notification) 87,500 shares of nonassessable common capital stock ($1 par). Price, par. For obligations from operation of Gaston mine and mill. No underwriting.

• Thunder Mines, Inc., Anchorage, Alaska
May 7 (letter of notification) 25,000 shares of nonassessable common stock. **Price**—$1 each. For working capital, machinery and equipment. No underwriting.

• Tygart Valley Glass Co. (W. Va.)
May 7 (letter of notification) 13,993 shares of common stock (par $5). **Price**—$10 per share. **Underwriting**—None. Expansion and working capital.

• Uintah Minerals Corp., Denver
May 5 (letter of notification) 50,000 shares of nonassessable common stock (par 10¢) half at 25 cents and half at 40 cents. **Underwriter**—Forbes and Co., Denver. To drill mining claims.

Union Electric Co. of Missouri (5/25)
April 19 filed $25,000,000 of debentures, due 1968. **Underwriters**—To be determined through competitive bidding. Probable bidders: White, Weld & Co. and Shields & Co. (jointly); The First Boston Corp.; Halsey, Stuart & Co. Inc.; Dillon, Read & Co. Inc.; Lehman Brothers. **Proceeds**—To pay construction loans and provide construction funds for a subsidiary, Union Elec. Power Co. Expected about May 25.

United Rayon Corp., New York City
March 29 filed 9,950 shares (no par) common stock. **Price**—$1,000 each. Each share is to be accompanied by a "production warrant" permitting the holder to buy a proportionate share of the company's output. **Underwriting**—None. **Proceeds**—To provide capital for the purchase and operation of a plant with an annual productive capacity of 4,000,000 pounds of viscose filament rayon and 8,000,000 pounds of viscose staple fiber.

• Utah Chimney Co., Inc., Salt Lake City
May 5 (letter of notification) 10,460 shares of common stock. **Price**—$10. To develop furnace, water heaters, and stokers. No underwriting.

• Virginia (Minn.) Hotel Co.
May 7 (letter of notification) 964 shares of common stock ($100 par) and 964 shares of $4 cumulative preferred stock ($100 par). To be sold in units of one preferred and one common share for $200. To construct hotel. No underwriting.

Webrib Steel Corp., New York
April 8 (letter of notification) 44,443 shares of common stock (par $5). **Offering**—Offered for subscription by stockholders at par in ratio of one new for each two shares held. Rights expire May 18. Working capital. Not underwritten.

Western States Oil Co., Phoenix, Ariz.
April 8 (letter of notification) 300,000 shares of common stock (par $1). **Price**—$1 per share. **Underwriter**—Arizona Securities Co., Phoenix, Ariz. To buy oil leases and equipment for drilling.

• Winter Park Telephone Co., Winter Park, Fla.
May 6 (letter of notification) 1,600 shares of 5% cumulative preferred stock ($100 par). Price, par. **Underwriters** — Leedy, Wheeler, and Alleman, Orlando, Fla. To retire outstanding preferred stock and to complete a new office building.

• Yeakley Oil Co., Alamosa, Colo.
April 30 filed 10,000 shares of common stock (par $10). **Underwriting**—None. **Price**—$10 per share. **Proceeds**—mainly for development. **Business**—Exploration and development of oil and gas wells.

Prospective Offerings

• Allegheny Ludlum Steel Corp.
April 30 stockholders authorized company to incur indebtedness of up to $20,000,000. Company currently has no funded debt. Proceeds would be used in company's improvement program. Probable underwriter if securities issued: The First Boston Corp.

• Ashland Oil & Refining Co.
May 6 company disclosed that stockholders will shortly have presented for their consideration a proposal for merging another independent oil company into Ashland. The identity of the company to be merged with Ashland is not presently disclosed. The merger is to be effected by exchange of stock, and Ashland plans to issue and sell additional preferred stock for its own account to provide additional capital funds. A. G. Becker & Co., Inc., may be underwriter.

• Beneficial Industrial Loan
May 11 reported company contemplates early registration with SEC of 100,000 shares of convertible preferred stock, with Eastman, Dillon & Co. as underwriter.

Carolina Power & Light Co.
April 21 the SEC granted the company, a subsidiary of Electric Bond & Share Co., permission to amend its charter to permit the public offering of additional common stock without first offering the stock pro rata to stockholders. Stockholders will vote May 19 on eliminating from company's charter the provision that any new common stock must first be offered to present common stockholders.

• Cincinnati Gas & Electric Co.
May 11 reported company contemplates issuance of $15,000,000 of bonds early in June. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.; W. C. Langley & Co.; Blyth & Co., Inc. and The First Boston Corp. (jointly).

Consumers Power Co., Jackson, Mich.
April 30 company asked SEC permission to issue 200,000 shares (no par) preferred stock. **Underwriters**—Names to be determined by competitive bidding. Probable bidders: Harriman Ripley & Co. and The First Boston Corp. (jointly); Morgan Stanley & Co.; White, Weld & Co. and Shields & Co. (jointly). **Proceeds**—For construction work.

• Fleet Oil Corp.
An offering of 296,000 shares of common stock is expected shortly. Proceeds will be used for the purpose of further development of oil producing properties and exploration of wild-cat acreage. Underwriter will be Aetna Securities Corp.

Harrisburg Gas Co.
May 4 the SEC granted company permission to sell 13,811 additional common shares (no par) at $90 per share. Shares would be offered for subscription by stockholders in ratio of one share for each two shares held. Warrants will be mailed to stockholders about May 20. Unsubscribed shares will be purchased by United Gas Improvement Co. (parent).

Kansas City Power & Light Co. (6/14)
May 5 company asked SEC for permission to issue $12,000,000 of first mortgage bonds and 80,000 shares ($100 par) cumulative preferred stock. **Proceeds**—To acquire and construct additional property and retire $3,860,000 of 1¾% notes issued for interim financing. Bids are expected to be opened June 14 and public offering about June 17. Probable bidders: Halsey, Stuart & Co. Inc. (bonds only); The First Boston Corp.; Kuhn, Loeb & Co.; Salomon Bros. & Hutzler and Union Securities Corp. (jointly); Lehman Brothers; Glore, Forgan & Co. and W. C. Langley & Co. (jointly); Shields & Co., White, Weld & Co. and Central Republic Co. (jointly).

• Kansas City Southern Ry.
May 6 reported company expects soon to offer, at competitive bidding, $14,000,000 of new first mortgage bonds to refund a like amount of promissory notes of Louisiana & Arkansas Ry. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; White, Weld & Co.

• Lamston (M. H.), Inc.
Stockholders have approved increase in authorized ($25 par) preferred stock. An offering of 7,060 shares expected to be made by Childs, Jeffries & Thorndike and Aetna Securities Corp. Purpose of financing is for expansion of this New York variety (5¢ and 10¢) store chain.

• National Fuel Gas Co.
L. A. Brown, President, states that during the next six months company expects to sell $13,500,000 new debentures. Of the proceeds $5,000,000 would be used to retire bank loans and $7,000,000 for construction. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Harriman Ripley & Co. and Glore, Forgan & Co.; Goldman, Sachs & Co. and Lehman Brothers (jointly). Expected in July.

• New England Power Co.
April 29 reported company will ask permission of Federal and State utility commissions and the SEC for authority to issue not more than $11,000,000 30-year first mortgage bonds. Proceeds will be used to buy properties of Bellows Falls Hydro-Electric Corp., a transmission line owned by Connecticut River Power Co., and to retire bank loans. All three companies are wholly owned subsidiaries of New England Electric System. Following sale of its properties, Bellows Falls company plans to redeem its first mortgage 5% bonds on the next redemption date. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Kidder, Peabody & Co.; Lehman Brothers; Merrill Lynch, Pierce, Fenner & Beane; Kuhn, Loeb & Co.; Salomon Bros. & Hutzler and Union Securities Corp. (jointly); Kidder, Peabody & Co. and White, Weld & Co. (jointly).

• New Jersey Power & Light Co.
May 1 reported company preparing to sell competitively $6,000,000 of new first mortgage bonds. Opening of bids is expected between June 1 to June 15. As part of the company's financing program, General Public Utilities Corp. (parent) will make an additional investment of $1,750,000 in company's common stock. Proceeds from the sale of the bonds and stock will provide funds to pay for all of the operating company's 1948 construction requirements, and part of the 1949 prospective outlay. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp. and Kidder, Peabody & Co. (jointly); Lehman Brothers; Harriman Ripley & Co.; W. C. Langley & Co. and Glore, Forgan & Co. (jointly).

New York Telephone Co.
March 11 company announced its plan to apply to the New York P. S. Commission for authority to issue $90,000,000 of refunding mortgage 33-year bonds and offer them at competitive sale in July. Proceeds of the issue will be used to reimburse the treasury for capital expenditures already made, to retire bank loans incurred in plant expansion and to finance future construction. Probable bidders: Morgan Stanley & Co.; Halsey, Stuart & Co. Inc. Expected early in July.

Northern States Power Co. of Minn.
April 30 reported officials of company are discussing possibilities for sale of new securities in the amount of some $30,000,000. Investment banking firms already are forming into groups to compete at the sale. The new securities will be designed by the utility primarily to provide funds required by its construction program. Probable bidders: Halsey, Stuart & Co. Inc. (bonds only); Smith, Barney & Co. and The First Boston Corp. (jointly); Lehman Brothers and Riter & Co. (jointly).

Pacific Telephone & Telegraph Co.
April 29 directors voted to sell 601,262 common shares of stock to shareholders at $100 a share. Subscription rights probably will be given to common and preferred shareholders of record on June 15, 1948, one right being issued for each six common or preferred shares. Funds will be used by company to repay advances covering expenditures for construction and extension of its facilities occasioned by the heavy public demand for telephone service.

• Reading Company (5/21)
Company requests bids for the purchase of the entire $4,800,000 equipment trust certificates, series O, dated June 1, 1948, to mature serially in 20 semi-annually instalments of $240,000 each on Dec. 1, 1948-1958. Bids will be received at office of R. W. Brown, President, Room 423, Reading Terminal, Philadelphia, Pa., at or before 12 o'clock noon (EDT) May 21.

San Diego Gas & Electric Co.
April 27 stockholders approved an increase in authorized common stock from 2,000,000 to 6,000,000 shares, and the preferred from 750,000 to 2,000,000 shares. There is no immediate plan to issue additional stock, officers declared. Traditional underwriter, Blyth & Co., Inc.

Westinghouse Electric Corp.
July 12 stockholders will vote on increasing authorized debt from $50,000,000 to $150,000,000. It is planned to issue $70,000,000 to $80,000,000 of debentures to refund or retire a portion of $100,000,000 obligations maturing in 1951. These obligations consist of $20,000,000 of debentures and $80,000,000 of bank loans. Traditional underwriter, Kuhn, Loeb & Co.

True Objectives!

"Some time ago I stated that it was the proud mission of the victor nations to take the Germans by the hand and lead them back into the European family. And I rejoice that some of the most eminent and powerful Frenchmen have spoken in this sense.

Winston Churchill

"To rebuild Europe from its ruins, to make its light shine forth again upon the world we must first of all conquer ourselves. It is in this way only that the sublime with its marvelous transmutation of material things can be brought into our daily life.

"Europe requires all that Frenchmen, all that Germans and all that everyone of us can give. I therefore welcome here the German delegation whom we have invited into our midst.

"For us the German problem is to restore the economic life of Germany and revive the ancient fame of the German race without thereby exposing their neighbors and ourselves to any rebuilding or reassertion of that military power of which we still bear the scars."—Winston Churchill to the "Congress of Europe."

We find ourselves unable to agree with this eminent Britisher at various points, but we can only wish more men and women in many more lands had always had this clear idea of the real needs of Europe and the world.

Sees Life Insurance Funds Huge Capital Source

Institute of Life Insurance reports 1947 increased holdings of corporate securities exceeds half of total new capital issues.

Life insurance funds, accumulated by the country's 75,000,000 policyholders, have become an increasingly important source of capital for the nation's economy since the war's end, the increase in holdings of corporate bonds and stocks by the life companies during the past two years having been the equivalent of more than half the value of all new issues of these two types during the two-year period, the Institute of Life Insurance reports.

"U. S. Life Insurance companies, investing their policy reserve funds, had $5 billion more in the corporate bonds and stocks of business and industry at the end of 1947 than they had at the end of 1945," the Institute reports. "This life insurance investment increase was not, of course, all in new issues.

Up Since Year-End

"Financing by the life insurance companies of the capital needs of the country's business and industry has been on an expanding scale since the war's end brought a decline in government financing requirements. This trend has continued into 1948 as evidenced by the investment purchases of the first two months of the year.

Recent Development

"The greater part of the life insurance participation in meeting the capital needs of the country has developed in recent years. In 1919 and 1920, the first two years after World War I, when new capital issues of the two years exceeded five billions, the life insurance funds invested in corporate securities showed increases representing only 1% or 2% of the new issues. The aggregate investment of life insurance funds in corporate securities at the end of 1920 was only slightly more than $2 billion, while today it exceeds $16 billion."

Analysis of the life insurance investments by type of industry shows that the two-year increase in public utility bond holdings, 1946-47, is the equivalent of about two-thirds of total new public utility issues in those two years. In the case of industrial and miscellaneous bonds, the ratio of increased life insurance holdings to new issues is even greater. Even in the case of preferred stocks, the ratio is approximately 40%. Life insurance funds have, of course, taken a much smaller percentage of the new issues of common stocks, as a great part of the life insurance business is not permitted, under existing state laws, to invest in such securities.

Wide Financing Aid

In aggregate investment, the life insurance funds meeting the capital needs of public utilities through bond issues increased by $1,653,000,000 in the past two years, to a total of $6,726,000,000 at the end of 1947; holdings of industrial bonds increased by $3,002,000,000 in the same two years to a year-end total of $4,860,000,000; railroad bond holdings increased slightly to $2,787,000,000 at the end of 1947; stocks owned increased by $538 million to $1,371,000,000.

"These investments in corporate securities carry the financing aid of the life insurance dollars into practically every section of the country," the Institute commented. "They are aiding the railroads, carrying light and power and providing expansion funds for industry throughout the country."

With Bond & Goodwin, Inc.

(Special to The Financial Chronicle)

BOSTON, MASS.—C. Berkeley Cooke, Jr., has joined the staff of Bond & Goodwin, Inc., 30 Federal Street. He was formerly head of the United Securities Corporation of Baltimore and prior thereto was with R. H. Johnson & Co.

Our Reporter's Report

Spurred by the encouraging undertone in the seasoned market the tide in the new issue business appears to have swung sharply, even if only temporarily, away from debt securities and into equities.

Stock financing projects, some of which have been warmed over several times only to be set aside again, are now coming definitely to the fore and currently, at any rate, outnumber new bond offerings.

Since, in most instances, these are industrial operations and carried out via the negotiated route, instead of by competitive bidding, it will be understood that they are much more palatable with the underwriting and distributing fraternities.

Three such issues came to market this week and several more large ones are on the calendar tentatively for next week. Of the current deals, one involving 422,467 shares of National Gypsum Co. common, was subject to prior subscription rights of stockholders. The 800,000 shares of $25 par preferred, convertible series, of Southern California Edison, was reported to have been oversubscribed.

A third comprised a big secondary, involving 730,000 shares of common stock $5 par, of Halliburton Oil Well Cementing Co., being sold by certain large stockholders, of which 50,000 shares are being offered directly to employees.

Market observers were confident of a ready reception for these and the other issues which are slated to follow in the near future.

Next Week's Prospects

An offering of 50,000 shares of $100 par value cumulative preferred stock of Alexander Smith & Sons Carpet Co., is regarded as definitely on schedule for next week, probably Wednesday.

Sale of this issue would provide the company with funds needed for general corporate purposes. Meanwhile it is expected that an offering of $10,000,000 of new 20-year debentures of Bristol-Myers Co., will be brought to the public on Friday.

American Broadcasting Co. has registered with the Securities and Exchange Commission to cover an issue of 500,000 shares of common stock, and should the period of hibernation here be shortened, it is considered a likely candidate for market on Monday.

Filling in the Spots

Those who follow the listed market have noted a generally firmer tone prevalent in high-grades, suggesting that institutional buyers have their eyes open for opportunities as they develop.

But these cagey operators are still of a mind to venture forth only when the yield and the maturity fit into their portfolio spots. Their lot has not been rendered any easier by the apparent let-up in the flow of new senior securities.

Quite to the contrary the lull in that direction has served to assist distributors in their task of working off the remnants of some recent issues.

A Seller's Market

Competition was really keen when West Texas Utilities Co. rounded up the bids tendered for its issue of $5,000,000 of new bonds a day or so back.

The company found it had eleven prospective buyers for the issue, four of them bidding for a 3% coupon ranging from the top offer of 100.19 down to the low of 100.047.

Seven other bids were entered specifying a 3⅛% coupon. These ranged from a high of 102.3699 down to a minimum of 102.019. The issue naturally was awarded as a 3% and the successful group planned reoffering at 100.70 to yield about 2.965%.

MEETING NOTICE

The New York Central Railroad Company

Albany, N. Y., April 17, 1948.

The Annual Meeting of the Stockholders of The New York Central Railroad Company, for the election of Directors and of three Inspectors of Election and the transaction of such other business as may be lawfully brought before the meeting, will be held at the principal office of the Company, Room 20, Union Depot, in the City of Albany, N. Y., on Wednesday, May 26, 1948, at 12 o'clock Noon.

Stockholders of record at 3 o'clock P. M., on April 23, 1948, will be entitled to vote at the meeting.

JOSEPH M. O'MAHONEY, Secretary.

With Colvin, Mendenhall Co.

BEVERLY HILLS, CALIF.—Harry K. Rutherford is now associated with Colvin, Mendenhall & Co. He was formerly with Russell, Berg & Co.

Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

If you can spare a little of your attention from strikes or rumors of strikes in railroads, automobiles, coal, and such like, the ball on which to keep your eye is none other than one Senator Joseph H. Ball of Minnesota. For Senator Ball's Joint Committee on Labor-Management Relations will begin May 24 to hold some down-to-earth technical hearings on ways and means of amending the Taft-Hartley labor act so that it will accomplish some of the objectives Congress set out to achieve. This group is commonly known as the "watchdog committee" for the Taft-Hartley act, and the Minnesota Senator is its chairman.

* * *

One thing you can count on, and that is that nothing less than a national catastrophe will bring forth from this session of Congress a program of legislation designed to force labor to keep from running wild with the nation's economy. The Congressional majority is naturally hesitant to plough new ground in the way of anti-labor legislation in this, an election year. Nevertheless, if the threatened strike wave had developed earlier, there was always the possibility that it would have led to some legislative action. Now there is not time. Some of the boys on the Hill may scream. But a few days after the worst strike is over, there will be every inclination to forget about it and get on with this business of getting elected.

* * *

So short is the time that the leaders have pretty well agreed now to junk for 1948 their idea of boosting minimum wages to 60 or 65 cents per hour. They had recognized for some time the practical difficulty of doing a good job on the wage-hour law. If they had tried to fix up some of the nonsensical interpretations of the law, particularly its operation to protect in some cases wages of more than $2 per hour, they would have run into a dilemma. That dilemma was that for every plan to rectify errors in the act or its interpretation, they would have been confronted with a demand to extend its scope and operation. So the tentative plan was to just boost the minimum and let it go at that.

Now that, too, has been dropped, and it is improbable there will be minimum wage legislation before adjournment. Shortness of time has killed this proposal. The result, however, may be of some significance. It can mean that next year, then off the election griddle, the Congress may be able to write a pretty fair wage-hour law.

Even though shortness of time precludes dealing with the developing menace of big strikes, the Ball committee hearings are important. There is no notion whatever of doing anything in the way of getting a bill passed this year, barring contingencies. They are designed specifically to set the stage for mature consideration in 1949 of amendments to the Taft-Hartley act.

In particular the committee will be no sounding board for orations in favor of or in condemnation of union labor, or the Taft-Hartley act, or of the sacred right of organized labor either to break its own neck or the country's backbone. Testimony will be limited to technical application to specific problems of amendment. In particular testimony must bear on amendments relating to more effective administration of the labor act by the National Labor Relations Board, to the question of the union shop, to the subject of industry-wide agreements, to union welfare funds, and finally to the subject of agreements forced by unions upon employers either to violate or evade the Taft-Hartley law's objectives.

There is actually no need for orations against union labor. John Lewis has proved that the Taft-Hartley act has not manacled unions for the mere sake of the public interest. Each new strike or threat of strike, even when finally they are avoided, is proving, so they believe on Capitol Hill, that the Taft-Hartley act has not achieved its goal of protecting the public against strikes which offer the prospect of near national disaster.

* * *

Joe Ball, who is running this show, is a character little understood. From the time he was appointed a Senator by former Governor Harold Stassen on Oct. 14, 1940, until the present, he has had some almost violent changes in direction. From being an ardent internationalist he has turned to being a cautious one. From being a New Dealer, he has developed into something of a more moderate liberal. He once helped organize a chapter of a newspaper union. Now he is the outstanding advocate of reform in labor legislation.

Cynics, who are the most numerous inhabitants of the local population, seldom admit that changing events and sincere, deep study can change men's views, even though that usually goes with the studious, serious type represented by Mr. Ball. Ball is just about the No. 1 villain to the full-time walking delegates. But those who know him well, and who have heard him discuss myriads of technical details about labor legislation, will swear that he is no tool of employers and would not back legislation designed to put the unions out of business. They say he just wants to make them behave, like the rest of the population. And he is one GOP Senator who has no notion of getting nominated President.

* * *

Senator Taft's voluntary materials allocation law will soon have a new recruit, the petroleum industry. A committee of that industry will come up in a matter of days with a program of voluntary allocations of supplies under the "Industry Cooperation Act" administered by the Department of Commerce.

Under this voluntary program, producers and distributors can pool supplies to mitigate so far as possible any prospective shortage of gasoline or fuel oil. The plan will be so geared that it can be put into operation on a national scale, a state-wide scale, or even on a community basis in such localities as there were temporary shortages. Approval by the Attorney General of this stand-by plan, and hence its exemption from the anti-trust laws, is anticipated without a hitch.

* * *

There probably will be another subject to scream about before the curtain goes down on the 80th Congress. The Truman Administration is getting ready to recommend to Congress the approval of a program for construction of 100 new, big, fast oil tankers. They would cost $8 million each. The government would subsidize the cost, and oil companies would operate them, the government absorbing a large part of the costs in return for a contract whereby these tankers could be swiped by the Navy the minute there was an emergency. Congress will howl over this because it has been critical of surplus sale of war-built tankers at a fire sale price.

* * *

Take a look at the Senate version of the contract renegotiation act. The House simply revived the contract renegotiation act as it existed in 1945, and tacked it on to the "70 group" aircraft authorization bill. The Senate similarly tacked a contract renegotiation revival on to its own "70 group" aircraft authorization, but the Senate wrote a different amendment.

Under the Senate amendment contracts of $100,000 or more may be renegotiated, but no individual contractor or subcontractor with less than $100,000 of war business can have his contracts renegotiated. Thus the effect is to lower the limit on renegotiation from the wartime $500,000 to $100,000.

Furthermore, the Secretary of Defense may in his discretion exempt, under the Senate amendment, any particular contract or class of contracts from renegotiation.

The Senate, however, did revide the fairly well accepted procedures and standards of the wartime act, as they were evolved.

Apparently the pitch on renegotiation is that its provisions will be revived severally on new armaments procurement legislation, as in the instant case of the aircraft procurement bill. There is little disposition to tackle the writing of a general new law applicable to all "war" contracts from here on.

Belief is that the Senate renegotiation amendment will prevail over the House amendment in the final enactment of the big Air Armada bill.

* * *

It is reported on the Hill that the armed services are trying to sell the Congress on enacting affirmative legislation directing them to stockpile tin, copper, zinc, lead or any other material that might be in short supply for the domestic economy. The services now are directed to try to avoid buying items short in supply in the domestic economy, but may buy them even so. They want Congress to take the onus for ordering them to stockpile, should stockpiling aggravate shortages and create the possibility of controls.

* * *

It is now being predicted that the International Wheat Agreement will be approved by the Senate. This agreement provides that Canada, the U. S., and Australia shall agree over a 5-year period to sell a specified number of bushels of wheat within a range of prices. The 30 importing nations, led by England, will agree to buy this wheat within this range of prices.

Farm organizations favor the agreement. Only opposition comes from the private grain trade, which knows that it is likely to be a device for continued government control over the wheat business.

Flaw in the agreement is that two big producers are still outside. Should Russia and Argentina start chipping away at the deal, there is no power to force Britain, France and the other 28 nations to buy as they agreed.

* * *

ECA officials are talking a grain export goal for the coming crop year of 300 million bushels of all grains. This compares with the current year's volume of 577 million bushels.

BUSINESS BUZZ

"He wants me to stop up and see his debentures some evening!"